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DEPARTMENT OF TRANSPORTATION AND
RELATED AGENCIES APPROPRIATIONS
FOR 1998

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HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

HOUSE OF REPRESENTATIVES

ONE HUNDRED FIFTH CONGRESS

FIRST SESSION

SUBCOMMITTEE ON THE DEPARTMENT OF TRANSPORTATION AND RELATED AGENCIES
APPROPRIATIONS

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PART 5

DEPARTMENT OF TRANSPORTATION:

	Page
Federal Railroad Administration.....	1
Grants to Amtrak.....	1
Research and Special Programs Administration.....	666

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DEPARTMENT OF TRANSPORTATION AND RELATED AGENCIES APPROPRIATIONS FOR
1998

Thursday, March 20, 1997.

FEDERAL RAILROAD ADMINISTRATION

WITNESSES

JOLENE M. MOLITORIS, ADMINISTRATOR
DONALD M. ITZKOFF, DEPUTY ADMINISTRATOR
KATHRYN B. MURPHY, DIRECTOR, OFFICE OF BUDGET
S. MARK LINDSEY, CHIEF COUNSEL
JAMES T. MCQUEEN, ASSOCIATE ADMINISTRATOR FOR RAILROAD DEVELOPMENT
BRUCE M. FINE, ASSOCIATE ADMINISTRATOR FOR SAFETY
RAPHAEL KEDAR, DEPUTY ASSOCIATE ADMINISTRATOR FOR POLICY SYSTEMS

NATIONAL RAILROAD PASSENGER CORPORATION (Amtrak)

WITNESSES

THOMAS M. DOWNS, PRESIDENT, AMTRAK
AL ALTSCHUL, CHIEF FINANCIAL OFFICER, AMTRAK

Mr. Wolf. Good morning. Today, we will hear from Tom Downs, President of Amtrak, and Ms. Molitoris, the Administrator of the Federal Railroad Administration. I am very concerned about the difficult position that Amtrak is in. Last week, GAO testified that Amtrak remains heavily dependent upon Federal support for both operating and capital assistance and is ill-prepared to operate without a lot of help.

Some points that GAO made were quite striking. The GAO noted that Amtrak debt and capital lease obligations almost doubled in a three-year period to just less than \$1 billion in 1996 and will grow by another \$1 billion beginning in 1999. To pay off these enormous debt obligations, Amtrak has been increasingly using Federal operating assistance, up from six percent in 1993 to 21 percent in 1996.

Further, for Amtrak to become a competitive railroad, it must complete upgrading and installing its high speed rail service along the Northeast Corridor, which will cost \$5.5 billion. Of this total, approximately \$3.2 billion is expected to come from Federal capital grants.

At a time when Amtrak is struggling to survive, Congress and the Administration have asked them to become self-sufficient from Federal operating assistance in the next four years. If this is to occur, and GAO predicted that it could not, Congress must address Amtrak's needs in a comprehensive way to secure its financial footing and long-term viability, not in a piecemeal manner as we have done in the past few years.

I want Amtrak to survive. I believe America needs a national railroad passenger system as a vital part of a balanced transportation network for our nation. But we cannot continue the status quo with Amtrak.

In the 104th Congress, I introduced legislation to revitalize Amtrak. Later today, I will be introducing the Amtrak Route Closure and Realignment Bill. This is a measure that I believe will help save the integrity of intercity passenger rail service in our nation because despite Amtrak's efforts, restructuring has not always worked as planned.

Some of Amtrak's unprofitable routes have been mandated by Congress, and this has stymied its efforts to operate in a businesslike manner. I believe it is imperative that we enable Amtrak to better operate in accordance with business principles.

Mr. Downs and Ms. Molitoris, let me welcome you and your supporting staff. We will put your statements in the record, and perhaps you could do the highlights. And since you are with the Administration, Ms. Molitoris, we will recognize you first.

FRA Opening Remarks

Ms. Molitoris. Thank you so much, Mr. Chairman. We very much appreciate representing the Administration's budget here with you and your committee today.

Mr. Wolf. Oh, excuse me. Mr. Sabo, I apologize.

Mr. Sabo. Welcome.

Mr. Wolf. Ms. Molitoris.

Ms. Molitoris. The FRA budget tracks the three priorities of Secretary Slater for the Department of Transportation, Mr. Chairman, and the three priorities are safety, investment, and common sense government. Today I will focus my oral statement on rail safety, Amtrak, and technological investment.

Safety

First, safety is our primary mission. FRA has set a goal of zero accidents, injuries, and deaths from railroad operations. It is indeed an ambitious goal, but it is the right goal. During our hearings last year, Mr. Sabo, I talked with the Chairman about the change in the rail safety program that we had instituted, focusing on root causes and solutions to rail safety problems across whole railroad systems instead of only the traditional one-inspection-at-a-time approach.

Let me point to our safety improvement chart, which we have brought with us today, because I don't think there is any more important message that I could give to you and the committee than what you see in that chart. What you see is a message about significant improvements in the rail safety record of our rail transportation.

[The chart follows:]

[Page 3--The official Committee record contains additional material here.]

We are very pleased that the new program that we have put into place is bearing very important safety fruit. For example, since 1993, fatalities have been reduced by 20 percent. The employees on duty casualty rate dropped from 7.59 percent in 1990 to 3.6 percent in 1996, and the train accident rate between 1993 and 1996 has been reduced by 16 percent.

Grade Crossings

In addition, with regard to grade crossings, which is the single largest loss of life along with trespassing in the railroad industry, we are extremely pleased that we have experienced a 20 percent decline in fatalities and a 9.4 percent decline in accidents in only one year, which is the biggest decline since we have been measuring these things.

We achieved these gains through partnerships. Secretary Pena in 1994 made grade crossing safety a national transportation priority, and all of the surface modes worked together on 55 initiatives to help achieve this 20 percent increase in safety.

Safety Programs and Initiatives

Last October, I furnished the committee and all members of Congress with a report on the effectiveness of our program, and each of the members of the committee will have one of the books at their place today. I think this is a plainspoken, direct report about what we are doing in safety and how it is helping us achieve results.

The primary ingredient in our safety program is safety partnerships because safety is everybody's business. Because everybody is involved, our database is bigger. It is more accurate. Our proposed rules are better, and, most of all, as the chart shows, safety has improved significantly.

All of our safety partners deserve recognition. Labor and management have contributed enormous resources. There have been significant capital investments by the railroads, and increased citizen awareness gives us the rounding out of our safety team. But we can't rest on this success. We have zero tolerance as our goal, and we are going to continue to push to that very important goal.

I want you to know that the entire team, Mr. Chairman, at the FRA is very proud of this chart which we have been talking about while you were gone because it says a very important message, and that is the new program is working. Safety has increased very significantly in the last two years, and we are

very pleased, not only because our team at the FRA is proud of what has happened, but because our customers in labor and in management are telling us that this is the right thing to do so we know we are on the right track.

Consequently, we ask that you support the 1998 budget for safety. About 90 percent of the FRA's \$57 million safety budget supports 456 field and 90 headquarters staff that are directly involved in developing and revising safety rules and in monitoring and inspecting the railroads.

I also should mention that this year the safety budget covers 100 percent of our Safety activities, plus about 60 percent of our Chief Counsel's activities which is the Safety Law Office.

amtrak

The second very important subject is Amtrak, as you have so rightly pointed out. Much has been said about the challenges they face. And when we arrived four years ago, we recognized how big those challenges were, and we set about addressing them. And that is why we brought on what we think is a very strong management team with Mr. Downs as the leader.

I think it is important sometimes, Mr. Chairman, the question is, are we looking at it half full or half empty. I think at least for a moment we ought to look at the accomplishments of Amtrak because they have been significant.

When we arrived, it was very difficult even to find out what things cost because everything was bundled together so much. Over the last two and a half years to three years, we have cut Federal operating subsidies in half. That is a very big thing for Amtrak. They have been divided into three business units. These business units are focusing on getting new business, satisfying customers, and providing good service.

We have unbundled all of the mystery about numbers, and that is why we have the big spotlight on the real numbers. And I think that is why it is a challenge that we are all recognizing.

Also, there have been tremendous private-public partnerships such as Amtrak partnerships with business; for example, Fortune 500 companies like Disney and Pepsi and United Airlines. In the Disney partnership alone, Amtrak ran a kids-ride-free coupon in the video release of the movie ``Aristocats.'' They, through tracking this, have identified \$13 million that they have brought to Amtrak through this one promotion.

In addition, states are stepping up to the plate. Not only have they doubled the state support of Amtrak in just one year, they are buying Amtrak equipment. They are bringing capital dollars to the line. We think that this is very important because Federal dollars can't do it alone.

We have made a terrific step, and it is one of the reasons the debt is so high, Mr. Chairman, because we had to decide what is our tradeoff. We had to attack the problem of 50-year-old ``heritage'' cars. We had to attack the problem of locomotives that constantly broke down. And that investment, I believe, is netting a very important result.

Because we have been aggressive in terms of pricing

strategies, although ridership has been flat for the most part, the yield for revenues has gone up about 10 percent. In addition, this has been voted the most improved transportation company in customer service in the country.

Let me emphasize, Mr. Chairman, there is no fat in the Administration's budget. I think that in olden days, maybe before you and I, there was always the technique of padding the budget so that the Congress would be expected to cut it.

I want to emphasize that this is a bare-bones budget. We believe Amtrak can survive and can avoid bankruptcy. I know a lot of people have been talking about that, but we need every dollar that the Administration has asked for.

This won't be easy. Amtrak will have to stretch. The Board has been very strong over the past three years in our budget negotiations. Management always comes to us with projections that have large deficits. We continue to push to get them to come to us with budgets that don't have large deficits and, in fact, in 1996, they met that. We believe that Amtrak has tremendous talent. They have shown that they can stretch, that they can cut costs, that they can make business deals that will work.

Our NEXTEA proposal that the Administration has brought forward makes a significant commitment of resources to Amtrak in an environment of very difficult budget times because we are committed to reducing the deficit to zero. For example, our capital commitment is \$423 million in 1998 and \$3.4 billion over the six-year life of NEXTEA.

In addition, it is part of the Highway Trust Fund, a commitment which says we believe Amtrak must be a key element of the national transportation system. That capital number over the life of NEXTEA is 75 percent of what Amtrak itself said they wanted.

We think that this is a big commitment in a tight budget year. It includes an incentive program. As Amtrak continues to reduce operating needs from the Federal Government, they will increase the availability of capital. While we are making a significant commitment, we know the Federal Government can't do this alone. There needs to be more private partners, more state and local partners to Amtrak.

In summary, the Administration remains very committed to Amtrak. We remain committed to the elimination of the operating subsidy by the year 2002. We know it is difficult because no railroad passenger service in the world has reached those targets.

We believe the kind of record that Amtrak has shown in the last especially two years, shows what they can do. We want to work with Congress to develop an environment where Amtrak, the Federal Government, the private sector, and local communities can work together especially in those areas where Amtrak is such a priority.

research and development

Finally, let me just mention our research and development program which is part of our budget. It is focused right where our priorities are on safety. It is focusing on those areas with the highest accident rate still remaining, for example

human factors such as fatigue studies and so on, and track accidents. Those are our two remaining main causes of accidents.

In addition, the Next Generation Rail program has been very successful in attracting partnerships around the country in areas of advanced train control, non-electric locomotives, and grade crossing safety--to help the various programs in the country such as the Fox program in Florida to really reach reality and come into existence. We believe, Mr. Chairman, that together Amtrak cannot only survive, but can thrive. Thank you very much.

[The prepared statement and biography of Jolene Molitoris and the FRA safety programs and initiatives report follow:]

[Pages 7 - 110--The official Committee record contains additional material here.]

Amtrak Opening Remarks

Mr. Wolf. Thank you, Ms. Molitoris. Mr. Downs, we look forward to your candid comments, if we can.

Mr. Downs. Thank you, Mr. Chairman. It is always a pleasure to be here. And it reminds me again that being neither fish nor fowl, our story is mixed depending on who is looking at us. We are a private business that depends a lot on Americans buying tickets. We also depend on operating and capital from the national government. Your perspective on us all depends on how you view each of those roles--government agency versus a business.

GAO did paint a picture that I think, as GAO is supposed to be, conservative in its approach, but it paints a pretty accurate picture of our finances over the next couple of years.

The picture tries to value the three main businesses that Amtrak is developing but does not quantify them from a revenue standpoint. I would like to talk about that later in my remarks. But I first want to talk about why we are running out of cash.

Two years ago, almost to the week, I sat before this committee and outlined a three-legged stool or a three-pronged approach to the reform of Amtrak. One was a massive internal restructuring of the corporation and its services, elimination of routes, elimination of trains, reduction in services, layoffs, reinventing the technology of the company.

The second was the creation of a capital trust fund that would allow us to recapitalize a company that had been badly undercapitalized in the 1980's to disastrous financial results.

The third was legislative restructuring for the corporation. One of those prongs of that restructuring has taken place, ours; the other two have not. Legislative restructuring failed in the last Congress, and we have no capital fund for Amtrak. We have done our part. The Administration and the Congress have not done theirs.

operating subsidy

In addition to operating, we had an agreed-upon glidepath for Amtrak's operating subsidy over the next five years. The

agreement was worked out with OMB. There were budget resolutions from House Budget and Senate Budget Committees that enrolled those glidepath numbers over the next five years, that went to zero in 2002.

I hope each of you has chart one. It shows where we have been on operating subsidy. In 1995, we had \$392 million worth of operating subsidy. The ``agreement'' was that the next year would be \$260 million, a \$130 million reduction; instead, it was \$185 million. The next year it was to be \$250 million; instead it was \$200 million. The next year it was to be \$225 million; instead, it was \$200 million.

The underfunding in that glidepath is \$150 million. We have eaten a lot of that in addition to other changes that we have made, but that results now in about a \$70 million cash shortfall for the corporation.

[The chart follows:]

[Page 112--The official Committee record contains additional material here.]

fiscal picture

Mr. Downs. We can live with that in a number of ways, but we do not go to Treasury. I want to remind everybody, I think it is well known that we do not borrow money from Treasury. We go to commercial banks, such as Bank America, Citibank, and others for our short term cash borrowings. At the end of the year, we borrowed about \$8.5 million cash to close out the year to make payroll and to make vendor payments.

This year we are projecting as much as \$75 million to \$120 million worth of cash shortfall. That is cash. We do not plan on coming back to you for an emergency supplemental. We plan on going to a bank again to borrow that money for cash purposes. We repay it at the beginning of the first quarter of our fiscal year out of our Federal payment.

The other thing that has been a part of the change in economics at the big picture level is shown on chart two, which says Federal capital appropriations for Amtrak, fiscal years 1976 to 1997. For one reason or another, I guess the Congress decided to starve Amtrak to death for lack of capital.

A railroad is a capital consumption machine. Railroads only make money if locomotives and cars and facilities are being utilized to their maximum; in other words, that the trains are moving constantly. That eats up capital. Railroad depreciation and maintenance operation is all capital.

In 1986, you will see the number was \$3 million for capital for Amtrak. That is not billion, that is not hundred million, or even 30 million. That is \$3 million. For the remainder of the decade of the 1980's, our capital stayed pretty much at that level of \$30, \$40, \$50 million.

Each year our capital depreciation account on in other words, the consumption of capital in the corporation was about a quarter of a billion dollars. So each year we were eating up about a quarter of a billion dollars of the core capital of the company.

We were told at that time, ``If you need capital, go to the private marketplace. Get your funding, privatize it, privatize

your capital. We think you can make it work in the private marketplace.'' Well, lo and behold, we could. We have now had funding for Amtrak capital, as the Chairman, mentioned over that period.

[The chart follows:]

[Page 114--The official Committee record contains additional material here.]

debt status

Mr. Downs. You will see where it starts in 1987 on chart three, our debt, all private funding against equipment, shows outstanding debt, capital lease obligations from 1987 to 2002. Years 2000, 2001, 2002 reflect a jump is to pay for the high-speed train the 18 high-speed trainsets that we now have on order and are now in production.

That marketplace, ironically, was not domestic. We had to go overseas to get financing for Amtrak capital for America's railroad. We are funded, in part, by KFW, the German export bank; by ING, the Dutch leasing bank; and the EDC, Economic Development Bank of Canada. Ironically, we do not own this railroad any longer from an equipment and capital asset standpoint. It is owned by a group of foreign banks.

Banks are funny. They expect to get paid for loans. If we can't pay them, they come get the equipment because the equipment is the equity underlying that debt. If we can't make it on a cash basis and make those payments, they have every right to come get all of the locomotives and all of the cars that we have purchased with this private sector financing.

I hate people who come to a committee and say, ``Chicken Little, the sky is falling, the sky is falling,'' or, ``We are going to turn the lights off on the Washington Monument.'' Our strategy about capitalizing the railroad in the private marketplace is pretty much at an end. We now have to pay for it.

We are out of cash as a result of drastic and unthought-through reductions in Amtrak's operating subsidy. They all have consequences, particularly when you exist as a private company in the private marketplace. We are now at the point where it is possible for a group of foreign banks to close America's railroad. It is an uncomfortable place to be. Our operating expenses begin to look a lot like the Federal budget as a result.

[The chart follows:]

[Page 116--The official Committee record contains additional material here.]

principal and interest

Mr. Downs. Chart four, principal and interest expenses for Amtrak from 1987 to 2002. We started out with almost zero principal and interest expenses in 1987 because we were funded with Federal capital. We went to the marketplace. You actually have to make payments on that debt even if it is the national debt.

Our principal and interest payments now are the fastest

growing part of our operating budget. Our operating subsidy is declining. The push comes about, then what gives. If the railroad loses control of its business and can no longer sell tickets, the railroad has no future. If we cannot sell rail passenger service to Americans, you can't make the principal and interest payments. Banks will take the railroad away. It is the end of the story.

[The chart follows:]

[Page 118--The official Committee record contains additional material here.]

self-sufficiency

Mr. Downs. What does that story cost? The last chart is Amtrak's glidepath to self-reliance. We were asked by several committees to quantify the cost of bankruptcy. That is chart five. We had a glidepath. We had an agreement with the Budget Committees. We had an agreement with the White House about the glidepath to self-sufficiency. Almost everybody has broken that agreement.

Between the Administration and the Congress, we are left with the prospect of hitting bottom. The bottom cost is \$5 billion to unwind this company. It would be as large a bankruptcy in some respects as the Penn Central bankruptcy and would probably take as long as six, seven, eight years to work out against all the creditors and claimants in this process.

CBO verified those estimates and said that those are real. Ironically, we are now at a point where the cost of unwinding the corporation is higher by 20 percent than the cost of capitalizing it and having a successful railroad operate in America.

[The chart follows:]

[Page 120--The official Committee record contains additional material here.]

operating subsidy

Mr. Downs. We are at a point where all of these consequences come home. We are not like a Federal agency. We act by charter and by law as much as a business as we can. Actions of this committee, this Congress, and of this Administration have business consequences.

Those consequences are about to come home. We can't make it work under the kind of assumptions that we will starve it into efficiency. We will starve it into a corner and watch it die slowly as long as nobody is accountable for that consequence.

We are there this year. We are out of cash. We will probably reach by the middle of fiscal 1998 the limits of our cash borrowing. The answer is that we can come back and ask for emergency supplementals. You would all hate that. We can try to get banks to loan us some more money. I don't believe they will. Or we can begin the unwind of the railroad. The alternatives to that, you can give the railroad away in smaller chunks to states and regions.

Mr. Packard [presiding]. We have got about five minutes----

Mr. Downs. I will do it real quick. There aren't a lot of options. You can give this railroad away and hope that somehow this \$5 billion doesn't hit anybody's bottom line. We said we needed \$245 million for the operating subsidy. I don't lie about figures like that. We try and minimize any subsidy request.

The White House did not feel that amount was a justifiable number for reasons I still don't understand. The President said \$200 million. We still say it is \$245 million on the operating subsidy side. We knew what we needed on capital. It is not what the President requested, and we understand the difficulty of dealing with that. We are here at your mercy, but if there is no pay, this railroad can't go.

Mr. Packard. Let me recess the committee to go vote, and the Chairman will be back very shortly. He left early for that purpose. And then we will get into--if you have a further statement, we will hear it at that point or get into the questions. Thank you.

Mr. Downs. Thank you, Mr. Packard.

[Recess.]

Mr. Wolf [presiding]. Mr. Downs, I apologize for not being here. We are going to have votes, and I was checking to see how it is going to go today. In summary, in two sentences or more, tell me what you said.

Mr. Downs. I said at the end there are consequences. We are by charter supposed to be a business. There are consequences to our funding levels. We have reached the end of those consequences. We can't make it on a cash basis through 1998 at \$200 million.

We told the Administration we had to have \$245 million. For reasons I still don't understand, they said \$200 million. The assumption must be that we will starve the organization into submission or have it die in a corner without accountability.

We have to have at least \$245 million in cash, or we need to come back. We need to have the committee understand that we will probably have to come back for some kind of supplemental in 1998. I don't lie about numbers like that. They have to be defensible. It is to the point where we can't avoid the consequences of the funding pattern.

[The prepared statement of Thomas Downs follows:]

[Pages 123 - 132--The official Committee record contains additional material here.]

administration fy 1998 budget request for amtrak

Mr. Wolf. Okay. Mr. Downs, Amtrak is requesting \$1,138,000,000 for operating and capital needs in fiscal year 1998. In comparison, the President's budget is requesting \$767,450,000. How accurately does FRA's budget request reflect Amtrak's needs?

Mr. Downs. As I said, it understates, I believe, our operating subsidy requirements by \$45 million, give or take \$5 or \$6 million. On the capital side, it does not recognize our capital needs even to get high speed rail service in place by the year 2000.

With the proposed numbers that I have seen in the

President's NEXTEA budget, there are some assumptions I don't fully understand but I think we will be reducing operating subsidy and seeing increases in capital over the life of that bill. The numbers still do not reflect a number on capital that would get us to self-sufficiency by 2002.

Mr. Wolf. Ms. Molitoris, please explain how the Administration calculated its budget request for Amtrak. Why is it \$370,550,000 less than the amount Amtrak requested?

Ms. Molitoris. Mr. Chairman, as we said earlier, the Federal budget dollar cannot do it alone. We calculated our numbers within a much bigger budget picture, as you know. Amtrak's needs have been stated as they see them. As I told you, I believe our numbers are bare-bone. We think they need every dollar we have offered.

We believe that these dollars, which represent a significant investment in a very hard budget year, if married with business initiatives which Amtrak has already put into place and can continue to put into place, Mail and Express holds great promise.

They just signed a contract with Quest for \$45 million for fiber-optic cable on their right-of-way in the Northeast Corridor. It was estimated originally at \$13 million. They did a great job of making a good deal.

We believe this kind of thing, along with increased support throughout the country where it is a priority, are ways to reach the goals that they have. I believe the numbers that Mr. Downs is using reflect the budget estimates that they have without additional actions. Every year in the last three, they have seen opportunities for budget actions that have made a significant difference in the shortfall.

Mr. Wolf. Mr. Downs has expressed disappointment with the Administration's budget proposal, stating that the budget proposal limits funding for Amtrak so severely that service in our Northeast Corridor's high speed rail program would stall.

He further noted that the level of capital proposed is so seriously inadequate and the level of operating assistance so insufficient that Amtrak's national system cannot survive. Tell me how you disagree with that and where you disagree briefly here, but then in detail with the record.

Ms. Molitoris. We will elaborate, Mr. Chairman, in the record, but I will repeat that I believe that Amtrak's record of developing business deals is something that we should not forget. They have done a good job. Mr. Downs has pursued, as have his three CEO's of the three business units. We have seen success in California, and the Northwest. We have seen the Northeast Corridor make money for the first time in the history of Amtrak. We believe there are ways to reduce costs and increase revenues to the bottom line.

[Page 135--The official Committee record contains additional material here.]

Mr. Wolf. What ways are you suggesting that Mr. Downs do it? Have you given him positive, active suggestions on where he should reduce the cost and in what areas? Or are you just giving him numbers?

Ms. Molitoris. No. The role of the Board is to work with

management. It is the responsibility of management to come up with these activities. But, for example, the whole idea of cellular phone towers on the right-of-way is something that is being explored throughout the country. And I have forwarded this concept to Mr. Downs which is being reviewed right now by Coopers & Lybrand.

There may be a \$10 to \$20 million opportunity there, but we won't know the numbers until Coopers & Lybrand comes forward with this response. My focus, Mr. Chairman, is bringing money to the bottom line of this company because that is how we achieve health and are able to grow the business.

Mr. Wolf. Mr. Downs, do you have any comment about that?

Mr. Downs. Depending on how aggressively we pursue business opportunities and depending on one-shots over a longer period of time to solve what has become a structural financial problem for the corporation isn't an outcome that we can depend on. We can develop new business opportunities. I think we are in the process of doing that by expanding Mail and Express.

Mr. Wolf. It takes time.

Mr. Downs. But not only does it take time, but sometimes they work out and sometimes they don't. Trying to depend on this drastic of a reduction ahead of time on our operating subsidy has consequences for us all, and it shows up in cash. We are running out of cash.

amtrak capital budget

Mr. Wolf. Amtrak states in its strategic capital plan for 1998 to the year 2002 that if a major investment in capital from a dedicated funding source is delayed beyond fiscal year 1998, high speed rail and other critical investments will not produce returns but instead will cause expenses to be incurred. What revenues will not be produced, and what new expenses will be incurred?

Mr. Downs. On the north end of the corridor between Boston and New York we have mandatory environmental requirements that have to be met as a part of the institution of the high speed service there. Those costs have to be met. They are not currently funded.

On the south end of the corridor, because of the way the corridor was rebuilt years ago, a number of items were not tackled. Something as simple as modernizing the century power systems--the electric traction systems--that were built in 1936 have never been touched. There is a billion dollars' worth of work that has to be done south of New York between New York and Washington to actually have high speed rail live up to its promise.

High speed rail--and all of our bankers say it is still true--with all expenses, principal, interest, everything--high speed rail will generate about \$150 million a year worth of net profit for the corporation. We have to get there.

If we do not have the capital plant improvements that were envisioned as part of that high speed rail, those revenues will not show up to that extent. They will still be cash positive, but it will simply be a shiny train operating at the current speeds of Metroliners today. And that won't generate the revenue that we are supposed to be developing to make us self-

sufficient.

Northeast Corridor Capital Needs

Mr. Wolf. Mr. Downs, over the next five years, Amtrak's strategic business plan is requesting, on average, \$782 million per year for capital and Northeast Corridor needs. This request is significantly higher than the \$640 million you were requesting just one year ago and well above the \$398,450,000 appropriated for fiscal year 1997. Why should Congress greatly increase its funding of Amtrak's capital and Northeast Corridor programs in an era of declining Federal resources?

Mr. Downs. Because I believe it is a good business investment. Those numbers reflect every year that there is a squeeze-down in our capacity to rebuild the corridor to any kind of modern high speed rail capacity. The expenses build up between now and the launch of high speed rail.

So we are, in effect, compounding the problem by delaying it further and further. But it is related to the return on the investment. If we can make those investments, the capital itself has a positive rate of return for the American public. It helps generate a profit. It pays for itself. It avoids catastrophic loss.

If the corridor itself fails, the national government has a \$1.6 billion lien on it that is first in line in any liquidation. It means, in effect, that the corridor would probably be sold off. To avoid that and the consequences of it, the capital investment has a positive rate of return, not just from a monetary standpoint, but from a congestion standpoint, from an environmental standpoint, about a better transportation mode for the Northeast.

Amtrak Self-Sufficiency Plan

Mr. Wolf. The Administration and Congress have instructed Amtrak to be free from Federal operating assistance by the year 2002. Although Amtrak has improved its bottom line by more than \$300 million over the last two years, significant improvements are necessary in the remaining years to meet the goal of operating self-sufficiency. Currently, Amtrak is significantly behind schedule in its plan to eliminate operating subsidies. How does Amtrak plan to get back ``on track'' and achieve all of its planned savings by the year 2002?

Mr. Downs. I don't believe we were behind on our original compact about the glidepath to self-sufficiency. I mentioned while you were out that we had the House Budget Committee and the Senate Budget Committee set a glidepath number for us for the next five years. We have consistently been under that number.

Our glidepath was not the drastic decline that we have seen in our operating subsidy, and that has, in effect, wrecked our glidepath and caused us to have this cash crisis. We have made every target that we have been held accountable for in terms of operating.

When we have made decisions that are tough about reducing services, sometimes they have been changed. We have still lived with those changes and tried to make it work financially for

the company and the country. I believe we are still on our target.

Legislative Proposals

Mr. Wolf. Will there be any legislative changes necessary?

Mr. Downs. We had hoped that the House-passed bill, the Amtrak reauthorization bill of last year that passed the House I think 406 to 4, a good bipartisan vote, would have been at least a part of the answer of the restructuring of the company. It apparently died because there was not enough time on the Senate agenda at the end of the last Congress to have that bill considered by the full Senate.

It did come out of committee, and it I think died for a lack of a consensus on how to handle the difficult issues of labor reform and tort liability reform in the Senate. Senator Hutchison, as Chair of our subcommittee, has promised quick action out of her committee on a new Amtrak bill as quickly as she can get it through a hearing process and markup.

Mr. Shuster has said that his interest is in a bill that would be out this year. Whether it is part of the President's request for NEXTEA or as part of a freestanding bill, I don't know.

Mr. Wolf. Ms. Molitoris, why do you believe it is appropriate that Amtrak's funding, including retirement costs of former railroad employees who never worked for Amtrak, be derived from the Highway Trust Fund as you have proposed in the budget request?

Ms. Molitoris. Mr. Chairman, the Administration believes that Amtrak is a key element of a surface transportation system. And I think the decision to include it as such, along with transit and bike paths and other elements of surface, is a commitment to Amtrak. It is a statement by the Administration that this service for Americans is crucially important. I believe that is the policy and the reason that the Administration went in this direction.

And if I could just for one moment mention on the last question about the changes that are often talked about in terms of reform, this is a discussion that has been going on now for a couple of years. But I want to emphasize that I believe that Amtrak has successfully made business arrangements and has operated like a business even with the legislation that we have.

For example, people talk about contracting out a lot. The fact is, I have right here 47 letters of agreement from labor, in which Amtrak has been able to contract out. So the myth that they can't contract out at all is simply not true. I think the opportunity to work with their labor force has been a successful one. Bear and other somewhat self-directed work areas where they even have contracts are now making a profit doing other business because they are so efficient. I think that is a very important element. And I just want to emphasize that I don't think we should over or underscore too much the fact that those things have to happen before Amtrak can pursue some of these business initiatives.

Mr. Wolf. Did you look at the GAO testimony?
Ms. Molitoris. I did.
Mr. Wolf. Could you give us a point-by-point comment on the testimony?
Ms. Molitoris. For the record or right now?
Mr. Wolf. For the record.
Ms. Molitoris. Certainly.
[The information follows:]

[Pages 140 - 146--The official Committee record contains additional material here.]

Capital Needs

Mr. Wolf. Mr. Downs, Amtrak plans to fund \$1,440,100,000 in capital needs in 1998; however, your funding sources [federal, state, external] only account for \$1,098,600,000? Amtrak does not plan on being able to generate any internal capital revenue dollars until well past the year 2000 and because of past credit history, the railroad may not be able to borrow. How do you plan on funding the \$341,500,000 shortage?

[The information follows:]

With a secure, dedicated source of capital funding such as a trust fund with revenues equal to those generated by 1/2 percent of the current gasoline tax and with contract authority, Amtrak anticipates that it would be able to obtain short-term financing for the shortfall in capital needs in FY 1998. However, without the guarantee of such a stable source of capital funding, such short-term financing would be made more difficult.

Budget Deficit Forecast

Mr. Wolf. In Amtrak's 1997-2002 forecast [page 7], the railroad is showing a budget deficit almost equal to that projected for 1997 and 1998. I thought that Amtrak was planning on making a profit in the year 2001 from its high speed rail operations along the Northeast Corridor. Why is the railroad still projecting a sizable budget deficit?

[The information follows:]

In Amtrak's FY97-02 strategic business plan, the Northeast Corridor's high speed rail program is projected to begin service in late fiscal year 1999. The operating impact of this program is approximately \$150 million bottom line improvement per year starting in fiscal year 2000.

Fiscal year 1998 and fiscal year 1999 have budget deficits similar to fiscal year 1997 despite continuation actions to further reduce costs and increase revenues due to significant declines in federal operating support is assumed. It is not until fiscal year 2000, the year in which the high speed rail program is fully implemented, that the plan shows a positive budget result for the company as a whole. From fiscal year 2000 through fiscal year 2002, positive budget results fund the cash deficits that built up in the previous years.

Amtrak's Funding Needs

Mr. Wolf. At the end of fiscal year 1996, Amtrak was projecting at least a \$71 million deficit, however the Board agreed to provide \$40 million from Amtrak's capital grants to reduce the deficit. The question is can you legally do it? Would you explain to the Committee how Amtrak can legally divert capital dollars to reduce your operating deficit and on what authority do you base that on?

Mr. Downs. The corporation has a \$40 million account in its 1997--its Amtrak general capital account for payment of interest on our existing debt. It is exactly like the payment for interest on debt in the Federal Transit Administration's authorization and appropriation legislation, and we believe after a lot of review, both at the Amtrak Board of Directors level and at the legal level, that that is a justifiable use of capital.

Mr. Wolf. Would you submit that for the record, your legal opinion, so we can--

Mr. Downs. Absolutely, Mr. Chairman.

Mr. Wolf. We would like to ask some other people to take a look at it, too, if you could do that.

Mr. Downs. I would be glad to.

[The information follows:]

When I agreed to submit for the record Amtrak's legal opinion on the use of capital funds to pay interest on capital expenditures, I was unaware that this opinion was set forth in a privileged and confidential communication subject to the attorney-client privilege. Amtrak cannot provide this opinion to the Committee without waiving the privilege entirely.

As I said at our hearing, Amtrak's use of these funds is analogous to the Federal Transit Agency's use of capital grants to pay certain interest expenses for capital projects. In the absence of adequate operating funds, and given a finite borrowing capability, our options were severely limited.

Budget Deficit in Fiscal Year 1996

Mr. Wolf. Not including the transfer of capital dollars, what was Amtrak's budget deficit at the end of fiscal year 1996?

Mr. Downs. Budget deficit, I have with me today Al Altschul, who is the Chief Financial Officer. Al?

Mr. Altschul. The budget deficit was \$8 million.

Mr. Downs. Cash?

Mr. Altschul. Cash.

Mr. Downs. On a cash basis. On the business plan, though, the plan was off by \$70 to \$82 million?

Mr. Altschul. \$82 million.

Mr. Downs. \$82 million. If you measure us the way you measure a federal agency, at the end of the year whether or not our budget balanced by cash, we were off by \$8.5 million.

Estimated Budget Deficit for Fiscal Year 1997

Mr. Wolf. Based on your first two quarters of revenue, what

do you believe Amtrak's budget deficit will be at the end of fiscal year 1997?

Mr. Downs. On a cash basis, the worst case----

Mr. Altschul. At the end of fiscal year 1997----

Mr. Wolf. 1997.

Mr. Altschul. Yes, we expect that on a worst-case basis it would be in the range of \$100 million, give or take \$10 or \$15 million.

Mr. Wolf. What impact did the floods have in the Northwest and Midwest?

Mr. Altschul. It was in the millions of dollars. I would ask if I could submit that to you in writing, but it was costly.

Mr. Wolf. And what about in comparison to last year's snow?

Mr. Altschul. Last year's snow was also costly. This year, though, we have budgeted for a 50-year snow, so we have--we now have in our business planning process weather planning events that are now part of our fiscal planning, instead of having them appear every four or five years with a catastrophic financial consequence.

Mr. Wolf. Will these have any impact on your budget deficit for 1997, the floods, the weather this year?

Mr. Altschul. They have an impact on cash. We don't get the ticket revenue in or we have inconvenience payments to members who are on a train and the train isn't running to their destination. We have to carry them on. Those costs all turn to cash problems at the end of the fiscal year. I would be glad--again, I will be glad to quantify those for you.

Mr. Wolf. At this point, do you believe that Amtrak will need to borrow to cover any budget deficit in 1997? Will this amount be greater or less than the amount required in 1996?

[The information follows:]

Amtrak has initiated borrowings during the month of March. The purpose of the borrowings is to cover our operating cash flow deficits. These borrowings have since been repaid upon receipt of the quarterly grant funds, April 1, 1997. It is expected that Amtrak will continue to exercise the short term lines of credit through fiscal year 1997 with borrowings to cover cash shortfalls by the end of the year of somewhere between \$70 and \$100 million. This amount was greater than the amount borrowed to cover the short fall in the 1996 fiscal year.

GAO Testimony on Amtrak Financial Condition

Mr. Wolf. GAO presented some alarming testimony on Amtrak's financial condition. They noted, and I quote, ``Amtrak's increased debt level could limit the use of federal operating support to cover future operating deficits. In fact, over the last four years, interest expenses have tripled from \$20.6 million in fiscal year 1993 to \$60.2 million in fiscal year 1996. Since Amtrak pays interest from federal operating assistance and principal from federal capital grants, this increase has absorbed more of the federal operating assistance each year.'' This debt service could continue to rise in 1999 when Amtrak begins incurring the cost of financing \$1 billion

for high speed train sets and the related maintenance facilities. As Amtrak assumes more debt to acquire more equipment, what portion of the federal operating subsidy will be used for interest payments over the next five years?

Mr. Downs. I am not sure of the total, but I think it is close to \$50 million, principal and interest alone over the next five years. At the end of the five-year period, our current capital level will be approximately half of our entire capital budget, the principal and interest. It is a mandatory account that we don't like to see grow. And the problem is that banks, because they consider us an unreasonable risk because of our dependence on the annual appropriation process, charge us a couple of full points above what they might for a traditional business. We have some debt that is $9\frac{3}{4}$ percent, $9\frac{1}{4}$ percent. It is an extra penalty on us for being in the market.

Mr. Wolf. The federal government pays the interest income, however it may be possible that in the near future the interest income will be higher than the federal operating assistance.

Mr. Downs. It depends on the federal operating assistance level. If it goes to zero as quickly as it is going, that is very true.

Mr. Wolf. How do you envision paying for the increasing debt service costs, then?

Mr. Downs. On the largest increase in our future on this chart of outstanding debt, capital lease obligations between now and the year 2000, you will see until--from 1997, 1998, 1999, P&I [Principal and Interest] begins to decline. In the year 2000, 2001, 2002, that is all high speed train set. And as I said, all of our bankers, all of our lenders, all of the financial people who have been involved in the financing of the train sets for the corridor know and agree that that investment will pay all of its principal and interest payments and yield a profit. So that will not hit our operating line.

Mr. Wolf. Okay, last question, and then I will go to Mr. Sabo. I will recognize him and we will go in the order the people came in.

GAO concluded in its testimony that ``Amtrak's financial future has been staked on its ability to eliminate federal operating support by the year 2002 by increasing revenues, controlling costs, and providing customers with high quality service. Although strategic plans have helped eliminate operating losses, Amtrak continues to face significant challenges in accomplishing this goal, and it is likely that Amtrak will continue to require federal financial support, both operating and capital, beyond that time frame.'' If Amtrak does not receive a half cent in dedicated funding, do you believe GAO's conclusions are accurate?

Mr. Downs. Yes.

Mr. Wolf. Mr. Callahan.

The Cost of an Amtrak Bankruptcy

Mr. Callahan. Thank you, Mr. Chairman. Mr. Downs, GAO and CBO say that bankruptcy is inevitable unless you have some cash transfusion. And they say that the cost of bankruptcy is over \$5 billion. How could that be? Do you owe \$180 million, or is that what your debt is? How much is your debt?

Mr. Downs. Our debt is approximately \$2 billion.

Mr. Callahan. Two billion. What would the other \$3 billion be?

Mr. Downs. The other \$3 billion is unwinding the pension and employment costs, liquidating the company.

Mr. Callahan. Well, the \$2 billion that you owe, I mean, is collateralized by equipment, I assume, or assets of some sort. And the full faith and credit of the United States does not stand behind that?

Mr. Downs. It does not.

Mr. Callahan. So then the \$2 billion wouldn't be all loss factor. I mean, we would lose an asset, but we wouldn't need that asset if you went bankrupt.

Mr. Downs. That is true. And you wouldn't need the high speed train sets in the corridor or any of the other assets. It would be interesting, though, lawyers being lawyers, when you have \$2 billion worth of debt, how long litigation would last between the United States government and the banks involved about whether or not that was a voluntary and directed bankruptcy by the national government.

I am not a lawyer. I don't know how those things work out. I just remember watching how long it took the Penn Central process, the bankruptcy of the Penn Central to unwind. And I think there is still ongoing litigation. I remember that the federal government put \$7 billion into that, the resuscitation of that railroad, the Penn Central, and got \$2 billion out. That was a \$5 billion net contribution of the national government to the resuscitation of that railroad, and in fact that is what that bankruptcy cost. Our costs are probably going to be similar.

Mr. Callahan. Well, but I don't--I am not a lawyer either, but I will admit--and I think I have told this room in past years I don't apologize for that and neither do I think you should. In dealing with some of our lawyer friends, had I known how little common sense it took to be one, I would have gone ahead and got me one of those degrees, too.

But I do know something about financing because I borrowed money when I was in business. And when you pledge an asset and you can't meet the payments of that asset, the financing institution has no recourse except to come and get the collateral, the equipment or whatever, unless there was some further endorsement. I assume you didn't personally endorse this \$2 billion debt.

Mr. Downs. Not out of my bank account.

Mr. Callahan. And neither did the United States of America.

Mr. Downs. That is true.

Mr. Callahan. So if you owe \$2 billion, you know, they would take the equipment. They would sell it and they would recapture whatever they can and they would charge it off. I don't know what legal recourse they would have unless the contract that was signed gave them an opportunity to do something else.

Mr. Downs. It did not.

Mr. Callahan. Well, we hope we don't face that, but obviously we are not going to be able to give you what you need. And obviously the Administration doesn't support your total interest, because they asked for a great deal less than you

are talking about. And so if it is inevitable, you know, maybe we ought to get the CBO's--maybe we ought to re-look at that and see where they got that \$5 billion figure. You think there is \$3 billion pension liability factor there?

Mr. Downs. It is called C2. When you close this railroad, the law says there is a six-year wage provision that applies to every railroad employee who is laid off as a result of the closure of a line or of the corporation.

Mr. Callahan. Well, but if we are contributing a billion dollars a year or whatever amount we are contributing now, wouldn't that be offset? I mean, wouldn't the amount of contributions that we are contributing offset some of that loss?

Mr. Downs. The Comptroller General has an opinion that those liabilities did not accrue to the United States government.

Mr. Callahan. I am not talking about the liability. I am talking about the fact that we are--how much are we contributing? How much did we contribute last year overall to Amtrak?

Mr. Downs. Operating subsidy was \$200 million this year.

Mr. Callahan. So then for a six-year period, if we didn't contribute that 200 million, that would take care of 1.2 billion of it. So then if you assume that there is no further legal liability of the United States on the debt and that there--we are going to have to pay 200 million anyway towards the--and you are asking for more, then does--the \$5 billion is reduced down to about \$1-1/2 billion. I mean total--I know----

Mr. Downs. Assuming that there are no liabilities here about the legal liabilities of the corporation and that somehow this all just goes away and that private share--either the corporation is a private shareholder, although all of the shares are held by the United States government--all the shares of this corporation are held by the United States government, and it is possible to interpret that as simply walking away from any responsibilities as a shareholder. It is possible to assume that banks that have loaned us money over the last five years have no recourse to any other financial compensation as a result of the corporation going out of business.

That may all be true, and it may wind up only costing a couple of billion dollars. It is at the point where this government, this Congress, this Administration, has to chose. If the choice is put us out of misery and kill off the corporation, that is the prerogative of the national government. We are past, though, chiseling into this, having the corporation risk selling disappointment to millions of Americans who buy railroad tickets for services that cannot be fully provided.

It is time to make a decision about whether or not this mode of transportation fits in the United States. If it does not, that is a national government choice. We are saying that we are coming very close to having to make that decision, because it will not be either good public policy or, I believe, responsible government to simply let this thing die by strangulation for lack of funding or have the banks make that decision for the national government. I believe that would be bad policy. I do not believe that foreign banks ought to be

making a decision about the future of this railroad.

Mr. Callahan. Well, if we are going to chisel in something, we are going to leave that to the attorneys. They are the ones that are good at doing that. But still, knowing basic law, unless there was some indication of mismanagement on the part of the stockholders of Amtrak, which would be the United States, unless they could prove mismanagement, then in my Public Law 101 I wouldn't think they would have much of a case to go against the United States, unless you pledged or unless you indicated to them that Congress or the Administration had promised you certain assets through appropriations and they failed to fulfill their pledge to you. Now that could constitute some type of liability, but----

Mr. Downs. I believe this is the Congressional Budget Office's business. And they said it was 5 billion. I will be glad to share that data again with the committee, but I do know that no matter how this comes out, this committee will be dealing--if we go under, this committee will be dealing with us probably for as long as you sit on this committee. It took almost a decade and a half to unwind Penn Central and start Conrail. And that was a private corporation, and a freight railroad with a business, a core business. There are a lot of interesting issues that I think will require appropriations in both the House and the Senate and with the Administration to deal with over a very long period of time. I am not competent to quantify those for you, but I would guess that you would be dealing with us for a very long time.

Ms. Molitoris. Mr. Callahan, if I could just add a comment, please, with regard to this line of discussion. I think it is very important, and we would be happy to report for the record, if you so choose, that this kind of discussion include the other impacts on Amtrak's system. For example, in the Northeast Corridor, we are talking about 600,000 passengers a day that operate on Amtrak's right of way. Now, a small portion, is Amtrak. A major portion is commuter. The impact on the highway system, what would it cost, the resulting stress on the highway system, what would it cost in terms of Logan Airport and the need to increase those kinds of facilities. I think the value of Amtrak cannot be fully appreciated with a limited discussion only around, sort of, the bottom line kind of numbers that you are discussing right now. You would have to get a bigger picture look to give you a full sense of the importance of this company, not only to the whole country but to various regions.

Mr. Callahan. Well, I agree with you, and certainly--I hate to even sit here and talk about the inevitability of bankruptcy, but the chart says it is inevitable. It is inevitable even if we do increase the appropriation. With that indication, I mean, instead of 1998 it would be the year 2000 unless some changes were made in operational prompted areas. So I hate to talk about it, but I just say I don't want to sit here and believe that we are going to have to come up with \$5 billion the day you declare bankruptcy if that is the case.

You mentioned the Northeast Corridor. That could be sold. That is an asset. It is a profitable asset. I assume it is profitable. And I imagine you would find willing buyers to pay a lot of money for that asset. But in any event, I hope it doesn't reach that stage.

Ms. Molitoris. Mr. Callahan, may I just say for the record that I do not believe it has to go into bankruptcy and I think the kind of leadership that this company has shown, even in the face of this very challenging environment, that these challenges can be met.

Mr. Callahan. Maybe we ought to cut back on some of these short-line runs that are losing money. Have you all thought about doing that?

Mr. Downs. Do you have one in mind, Mr. Callahan?

mail and express expansion

Mr. Callahan. I have one in mind that you ought not cut out.

Mr. Downs. To reinforce the point that the Federal Railroad Administrator has made, we are close to what I think could be a very important success story for the national government, for the Congress, for the Administration. We know how to use the capital. We know how it can be used to develop other lines of business. We know high speed rail is going to be a financial success and help this company make it to self sufficiency. We now know better, fully, the economics of our mail and express business, what used to be on the head end of passenger trains all over America with REA, the Rail Express Agency.

In the late 1950s and early 1960s as much as half of all passenger train revenue came from mail and express. On some of our trains, the Southwest Chief from Chicago to Los Angeles, 42 percent of the total revenue of that train is mail revenue. We do it as a business with the post office. We bid it. They like us because our rates are good and we are dependable for long-haul mail. We think we can reinvent that business to help produce a better impact on the bottom line, be more businesslike, help those long distance trains achieve economic self sufficiency.

On most lines, I believe, it is possible to develop at least half, and maybe more, of the revenue coming off of mail and express. The post office has said it. The Board just authorized us to lease 900 new cars to develop that business as quickly as possible. We are in the process of trying to negotiate with two class one railroads a new partnership that would allow us to do that. Out West we have been aggressive about developing capital and operating agreements with California, Oregon and Washington. That sets a new standard for us about state partnerships for rail services the states want to buy.

Those three things could ensure us a financially secure future as a business. It takes capital. We have been drastically undercapitalized. We have gone to the private marketplace to try to make up a portion of that deficit. It has been very expensive for us because of the rates we are charged. We have to get that debt down and we have to make the right investments on that capital with a positive rate of return. With that, we could be the business that you want us to be. We can reduce the operating subsidy to 2002 to zero. We are close. It is a choice. The choice is we have to be able to make it in the short term through 1998. We need the capital. We think we can say with a straight face we are still on track about

operating self sufficiency. We are that close.

Mr. Callahan. I don't want to take any more time, Mr. Chairman, but I want to help Amtrak, but I want to have a parochial interest reason why to help them, too. So I am concerned about that. If I lose my parochial interest, I just wonder if I will have the same interest I have now in making certain that we have a viable railroad passenger service in this country. I guess we will just have to make that decision during the conference.

Thank you, Mr. Chairman.

amtrak realignment

Mr. Wolf. I am going to recognize Mr. Torres, but before I do, if I could just say, Mr. Downs, I am really disappointed, that you, and frankly the Administration, haven't stepped forward to do something a little more dramatic. This bill that we put in last year for an Amtrak realignment commission, we would have never closed the military bases in the nation if we hadn't looked at it in a comprehensive way. Why wouldn't you want to do something like this? I want you to do well. And I think personally you have the capability to do well. It may very well be a wonderful success story, but then again if you look at the numbers that Mr. Callahan talked about and if you listen to the GAO and not just the comment that I read, it could be a big failure, too. And for those of us that want you to succeed, why would you not be in support of a realignment commission that would be set up in a period of 100 and some days looking--similar to what we did in the base closing commission?

Mr. Downs. Well, it is--if you want us to be a business. I think increasingly it is understood by the Congress that we have to either be treated as a business or go out of business. Although the six-month delay on the five routes that we had proposed to eliminate this last round, I believe that only one of them will probably come out of this successfully with a new state partnership, and that is the Texas Eagle.

I think the process that we embarked on doesn't take a lot--I mean, we knew that we had to act quickly. We had to act in a businesslike way, make decisions about which routes we thought could economically survive and which couldn't. We did that. The Board did that, bit the bullet. Congress modified that by six months, but I think that it was only a six-month modification. I think we are going on with that as a business decision.

Base closings are about closing important government installations. This is more about making business decisions about whether or not mail and express, for instance, on certain lines will turn into a profitable business. And that depends in part on negotiations with a number of class one railroads and developing mail and express business. Those business realities will change over time. Some of them will succeed wildly and others will fail. And then when they fail, we need to treat them as a business decision and let it go.

I think we can make those business decisions. I think that Congress has been more willing now to let us make those.

Mr. Wolf. But, Tom, that really doesn't answer the

question. It doesn't. In this bill you would not only look at routes, you could look at other tough issues that you are facing to give you that opportunity to go off and do what you have to do. I am concerned, you know, as somebody living on the Northeast Corridor. I think it is a great way to go to New York or go to Boston. I am concerned that those of you who want to protect Amtrak may actually bear the responsibility, and this Administration, of killing Amtrak. And so let the record---

Ms. Molitoris. Mr. Chairman---

Mr. Wolf. Let the record show that this Congress last year--this committee was prepared to do everything it possibly can, and then in five years from now this thing doesn't work out, as Mr. Callahan--let the record show where the responsibility was. The responsibility was with certain people at Amtrak who didn't want to take advantage of some opportunities. The responsibility was with the Administration. You can finish, and then I am going to recognize Mr. Torres.

Ms. Molitoris. Mr. Chairman, let me respond to your comments, because we had a discussion last year and I knew of your concern. And I think I told you last year about the Board's concern. I think for the record we need to show that Amtrak has been reduced by Board action 16 percent of its route miles. That is a lot. I think that was a very hard decision. We reduced all service out of the state of our President.

Mr. Wolf. But the labor changes, the other things that Mr. Downs talked about, you didn't do anything with regard to them, basically. There were some minor changes, but overall the fundamental problem is still there. I am talking about looking at the whole ``ball of wax'' and wrapping it together to give Amtrak that opportunity. Then I think you would be able to go down to the floor of the House, stand up at any forum to say this is important that we put federal funding in this to keep this alive. Both of you ought to read the GAO testimony. You ought to go sit down with the GAO people, listen to them.

Mr. Torres.

amtrak priorities

Mr. Torres. Thank you, Mr. Chairman. Before I start, Mr. Chairman, I am not sure whether--I have been in and out.

Mr. Wolf. You were next, if that is what you meant.

Mr. Torres. No, I just meant to say that perhaps in my absence--Mr. Pease, our former colleague, is in the audience today. He is a member of the Board of Directors of Amtrak. And we are happy to see him back here.

Thank you, Madam Administrator, for your comments. And you, Mr. Downs. I read your three leg--the three legs of a stool paper. I, too, want to echo your comments on the importance of rail in California. It is heavy investment, the kind of strong partnership that we have as a state with Amtrak.

And as we all prepare for the next century in terms of freight and the strategic importance of Los Angeles as a major Pacific port, we need to have the facilities to move those goods and services to the other parts of the country. The coming building of the Alameda Corridor, we all look at these as very important aspects of rail. I think the six-month extension was a good idea, and it gave the state a chance to

really think about, very seriously think about their infrastructure needs and the role that rail plays.

I would like to just ask you a few questions that I might have missed in your own statement, and that is what type of decisions will you have to make if you do not receive an adequate operating grant?

Mr. Downs. Cash is king, as they say, and if we cannot make the cash payments, we will have to take drastic actions internally within the corporation to limit cash outlays in 1998. That will probably include additional rail line abandonments that we hope wouldn't negatively effect cash for fiscal 1998. We would have to reduce procurements for things like repair parts. We would have to reduce manning and staffing at major repair facilities and stations and reservations offices. Anything that had a positive cash impact by reducing those expenses during fiscal year 1998, we would have to do. Whether or not we could reduce them enough during fiscal year 1998 to live at these levels with our current cash problem is unclear.

dedicated capital funds

Mr. Torres. Would you tell me again why a dedicated source of capital funds is necessary for Amtrak to cut costs, to be self sufficient and still run a viable system?

Mr. Downs. Well, in part it is reflected in Chart 3. When you are starved for capital and are told to go to the private marketplace, it costs money. It costs us especially on operating. It is the fastest growing operating expense within the company. We would like to buy some of this debt down, because it would have a good, positive rate of return. We would like to be able to make capital investments that grow businesses, like mail and express, modernize our information systems, modernize completely our repair and maintenance facilities in places like Redondo, in Los Angeles. That maintenance facility was constructed, I believe, in the 1920s. We inherited it from the Sante Fe Railroad, and we are still struggling with the right capital investments there to maintain trains, locomotives on the West Coast.

Each of those capital investments will improve our efficiency, lower our costs, or increase our passenger revenue. Without that capital, this railroad can't make the investments that make it a real business with a high probability of success.

Mr. Torres. In that sense, does capital investment cut your operating costs?

Mr. Downs. Absolutely. An undercapitalized railroad is like an undercapitalized airline. Older equipment is higher cost maintenance, higher failure en route. You begin to manufacture parts that are no longer made by the original manufacturer. All of the inefficiencies that come with that lack of capital are a net economic drag. We have done some estimates over time about how much operating drag there was, and at one point it was probably as high as 100 to 150 million dollars a year net economic drag on the company from undercapitalization.

mail and express expansion

Mr. Torres. You testified--and I might have missed this point, but I have read it in the newspaper, the plan to increase your haulage of express mail and freight. Do you see this as a major investment in your future and a way to keep long distance service viable? And secondly, how long do you think it would take before you see a return on this type of investment?

Mr. Downs. The answer is yes, it is a viable way to provide the financial support for long distance trains. It was, ironically, one of the pieces that we struggled with a lot about what made Amtrak work over the long haul, literally. Our long distance passenger trains, we knew, could not develop enough passenger revenue to defray the fully allocated expenses of those trains. We were struggling with whether or not we should turn it into a land cruise business, more point to point on small, urban and rural. We need to do all of those in terms of realizing increased passenger revenue. However, passenger revenue was never enough.

Mail and express, which is already on a couple of lines and accounts for as much as 42, 43 percent of the income to the train, has high profit margins for us. It doesn't cost--in other words, the fully allocated cost to providing mail and express are not as great as the revenues, so we have a good margin there. That profit goes straight to the bottom line of the train. We think that is the strategy that will help us get to economic self sufficiency for that portion of our business.

We know the Northeast can make it on high-speed trains. We know the West can make it with state partnerships like California where there has been a billion dollars invested at the state level in rail passenger service in the last four years. And we have almost \$50 million a year worth of contracts with the State of California's agencies about rail passenger service. We know we can make it on long distance trains on mail and express now. I believe we can make it with partners with every class one railroad that we operate over. It will take some time; but, I believe that we can develop.

The last part of your question, how long. I believe it will take at least a year to fully develop the first phase of this business. On a limited number of trains, I believe we could probably within two years see a fully mature rail partnership with class one railroads on mail and express for long distance trains that will significantly change their economics.

Mr. Torres. Thank you very much. Thank you, Mr. Chairman.

amtrak owned infrastructure

Mr. Wolf. Mr. Packard.

Mr. Packard. Thank you. This has become an annual depressing time for me, because we have struggled with Amtrak for quite some time. And we never seem to quite find solutions that ultimately work. I need some information just for my own education. Does Amtrak own any of the right of ways, any of the rails?

Mr. Downs. We own the Northeast Corridor between Washington and New York, a portion of the railroad between Detroit and Chicago, roughly from Kalamazoo to Porter, Indiana, about 98

miles of that railroad, and some other minor facilities. We own a lot of capital plant in places like Chicago, where we own Chicago Union Station and Baltimore Union Station, 30th Street Station, and Philadelphia/Washington Union Station, New York/Penn Station.

Mr. Packard. Are those lines used by freight?

Mr. Downs. Yes, they are.

Mr. Packard. And you use a lot of the freight lines that Santa Fe and Burlington Northern and Union Pacific, et cetera, own?

Mr. Downs. Our long distance trains operate almost exclusively on class one railroad on an incremental cost basis. In other words, they charge us the incremental cost for operating the trains, and our new operating agreements give them a bonus for operating us on time. So we pay them right now about \$100 million a year for the use of freight railroad tracks around the United States.

Mr. Packard. Are those agreements fair and cost effective for Amtrak?

Mr. Downs. Depending on which railroad you talk to, their perspective might be they are unfair or fair. We try to load those agreements with very high bonus payment rates. In other words, our customers say the most important thing for them is on-time delivery. If a railroad delivers our train on time, they get, in effect, a bonus for delivering us on time. It can be as much as 80 percent of their payment. They can also have penalties for delivering us late. We think that is a fair way, since that is the most critical part of our business, this on-time delivery, as well as safe delivery of our passengers. That is the fairest way. Some freight railroads say that is not adequate compensation. One railroad says that they need a \$60 million-a-year increase in their payment from Amtrak to justify hauling passenger trains over their railroad. I don't believe that is the case, but some feel a need for a much higher federal and much higher payment from Amtrak.

Mr. Packard. Are those assets that you have outlined that you own, lines and stations, et cetera, are they marketable and is it a--could it be a consideration for income or spinning off some of your assets that would be more cost effective?

Mr. Downs. As the Federal Railroad Administrator earlier said, we have been through some intensive negotiations with the fiber-optic communications industry over utilization of the Northeast Corridor. We already have MCI with a very good lease for use of the Northeast Corridor for their communication transmission lines. We have another agreement with Quest Communications that is about to be finalized, and that will give us a one-time return. We are also looking at the utilization of the corridor, as the Administrator said, for personal communications systems, cell phone towers, which will give us a good, I think, rate of return or a one-time payment. We look for business opportunities for that in every way we can, because that is part of our charge to reduce our operating subsidy. So we have a business that is focused on maximizing the real estate value of the corridor.

cost-savings

Mr. Packard. Two years ago and even four years ago on the subcommittee it was--we were asking Amtrak to look at every route and every possibility of cutting costs. Do you believe that you have done all that can be done now, or are you still pursuing areas where you might be able to reduce operating costs or trim back on routes or cost saving measures?

Mr. Downs. The Federal Railroad Administrator is correct, and we are running about 17 percent fewer train miles than we did three years ago.

Mr. Packard. I heard that.

Mr. Downs. That is the largest single reduction, I believe, in the history of the corporation.

Mr. Packard. But if it is not enough to still remain viable, then what else? What are you--are you looking at other options, and what are those options?

Mr. Downs. Well, we have--the last round of route reductions that we announced and that were continued as part of the large continuing resolution until the 10th of May, we have five lines that we said were going to be eliminating, the Pioneer, the Desert Wind, the Texas Eagle, the Gulf Coast Limited that Mr. Callahan alluded to, and a portion of the Lakeshore Limited. We believe that we will be able to make shortly the decisions about the final disposition of those lines this year. That was a Board decision that was painful to come to about the next round of service reductions. We think we will probably accomplish most of those within the next week or two.

Cost reduction in the corporation is an unending task. We have set targets for this year and next year as part of our business planning process that will continue to try and get as much as 50 to 60 million dollars a year additional costs out of the corporation. Part of that is through automation, eliminating old paper systems. Part of it is a different way of handling things like insurance, where we have been successful in reducing our insurance cost. But we have constantly made, in maybe 80 areas, cost reduction targets internally to the management of the corporation and its overhead each year. Is that enough? It is already built into our business plan. If it is not enough, then will other routes wind up on the block? Probably.

process used for eliminating routes

Mr. Packard. Is your process of evaluating routes and determining whether it can be cut back or not somewhat similar to what we have done and what the Chairman has alluded to in terms of a BRAC process? Are you doing what we would do if we established a BRAC system of determining which routes are viable and which ones are not?

Mr. Downs. We took that one step further. We tried to assess whether or not we had made a right business decision about having less than seven-day-a-week service in certain corridors. We came to the conclusion that we had made a mistake about trying to get to less than seven-day-a-week service because a customer doesn't perceive that as a viable route. They won't change their travel plans to suit our schedule. We knew that we had to eliminate a number of routes. Either we

were going to take all of our routes to seven days a week, or we were going to eliminate the weakest of the routes that were on less than seven days a week and use the equipment to routes that were viable for seven-day-a-week service.

The reason we chose seven-day-a-week service and the focus on key routes was not just on passenger service, but was on mail and express as well. The post office says you have to be seven day a week on a train to be able to haul U.S. mail dependably, and they don't like trucking as a substitute on the days that the train does not run. We knew that our long-term business plan for long distance trains had to include that as a target for revenue growth. That was how we made the choice, best future business potential of certain lines like the Empire Builder, which would be restored to seven-day-a-week service so that we can maximize our mail and express business between Chicago and Seattle.

mail service revenue

Mr. Packard. What percent of your revenue is generated by mail service?

Mr. Downs. Right now \$67 million a year worth of Postal Service revenue. We think we can double it within about 12 months.

Mr. Packard. That equates into what percent of your total revenue package?

Mr. Downs. Five percent.

Mr. Altschul. It is a little bit less than that, but it is probably the fastest growing.

Mr. Downs. It is the fastest growing, and it has the best impact on our bottom line, because that revenue is a net profit revenue for us. It has got about a 15 to 20 percent profit margin total.

Mr. Packard. Of course, your difficulty is evaluating whether five percent ought to drive your policy decision.

Mr. Downs. But it is a--the interesting thing about mail and express--our core business is always passenger railroading. It is what we were set up in law by the nation to do. And the law also said we were supposed to put anything on this train that would help reduce the operating subsidy. So we were directed by federal law to develop other lines of business that would help support passenger rail service. That part of our business languished, frankly, for a number of years as we struggled with having no capital.

Mr. Packard. Do you have contracts with non-government postal service?

Mr. Downs. Yes, we do.

amtrak competition

Mr. Packard. What effect on your passenger level has low-cost airlines, commuter rails that are not Amtrak operated, things like Metrolink in Southern California--those are picking up a lot of your commute between, for instance, in my case, San Diego and Los Angeles, which perhaps historically might have ridden Amtrak but now is picked up by your transit districts that are combined to help--to compete, in some instances, with Amtrak. What effect has all of this had upon Amtrak's

ridership?

Mr. Downs. It is actually pretty healthy economically, because, as you are probably aware, we operate everything in Southern California on commuter rail. We operate all of the Southern California commuter rail for L.A. MTA. We operate the coaster service. Those are all contracts that we bid. Those contracts are cost plus for us in terms of profit.

Mr. Packard. Is that generally true around the country or just mostly in isolated places?

Mr. Downs. Our largest single contract is that we operate all of the long lines on the MBTA in Boston. That is about a \$110 million-a-year contract. That allows us to sort out our own businesses. For instance, on the San Diegans, Metrolink and the Coaster service are interested in better coordination of their schedules and our service long distance and medium distance so that we can better sort out which market, business commuter versus leisure market. It has allowed us a much better management of the entire corridor, particularly since the entire corridor is now publicly owned by the three counties. And it has been good for our business, actually, that North County and L.A. MTA have been making--as well as the Corridor Development Corporation--investments in that corridor. Our business actually is better.

I like to say even though it sounds silly to say it, Rail riders ride rail. Commuter rail markets like Washington have better long distance train utilization because people there are familiar with and more comfortable with riding a rail system. The same thing is developing in Southern California. The more aggressive the state gets in supporting longer distance commuter rail, the better our market is, because there are hub and spoke impacts on it. So it has actually been a good thing for our business.

Mr. Packard. So you feel that it is not competitive. It is more synergistic?

Mr. Downs. Yes.

low cost airfares

Mr. Packard. What about low-cost airfares?

Mr. Downs. A long time ago I had a brief conversation with Herb Kelleher and told him I didn't need to be in his business. And he said well, you are, aren't you. And I said no, I am not. He said what do you mean. I said most of our long distance trains stop every 60 miles. And he paused and he said well, I would like to. His business is like Baltimore to Providence, Rhode Island. We have a dozen and a half stops between Baltimore and Providence, and it is our intermediate market. It is New Haven to Philadelphia. It is Trenton to Providence that is our real market. It is our intermediate stops. It is Havre, Montana, to Devils Lake or Devils Lake to Minneapolis, St. Paul. Those markets are where we are best suited. I had a conversation with the governor of Wyoming about Amtrak service, when I told him that we were leaving Southern Wyoming on the Pioneer. He said I hate to see you go, I have constitutional provisions in the state constitution that prohibits me from spending state gas tax for anything other than highways or to match a federal program. He said I hate to see you go, because

in a lot of those cities along the southern tier of Wyoming we have one carrier, a commuter plane. I think it was United, and it was the United commuter, 12-seat and 24-seat airplanes. He said its round-trip ticket is often \$550 between those cities and Denver alone. He said your service provides access not only between those cities and Denver, but between those cities in Southern Wyoming. That is a business we would like to see stay in Wyoming, but I haven't got the resources to do it. What he was saying is that those low-cost airlines don't have that impact out in his state. They are big hubs. We try and stay away from that business. I can't compete with Herb Kelleher.

dedicated revenue

Mr. Packard. One last question that I might have. If, in fact, your one-half cent proposal simply couldn't be done for whatever reason, what would that do to your long-term plans?

Mr. Downs. Well, at our current capital funding levels, with principal and interest payments coming out of that, if we have to, and other mandatories like ADA, toilet retrofit, station retrofit, we haven't got enough capital to do all of the things that we are mandated to do at the funding levels that we are getting for capital. We are definitely not there about our ability to put the south end of the corridor in decent enough shape to run high-speed trains. It won't do us any good to be able to run trains at a 150 miles an hour, when it snags a wire because the catenary are failing and drags down a mile of wire. At 150 miles an hour, you could drag down five miles of wire. We can't make the kind of capital investments that would let us become financially independent and it is the trade. It is operating versus capital.

Mr. Packard. And your only alternative right at the moment is the one-half cent?

Mr. Downs. That is all we have got.

Mr. Packard. Have you reviewed or had your legal counsel review--and maybe that is a job of this committee, but what kind of legislative requirements it would take to permit a half-cent transfer from the gas tax?

Mr. Downs. Mr. Shuster had a piece in the Washington Post, I think, two days ago where he said that his committee, which is the committee of jurisdiction for us within the House, his Rail Subcommittee, would consider a half-cent gas tax for Amtrak in the context of trying to deal with the 4.3 cents of gasoline tax that is in deficit reduction, and that in relationship to the President's budget, the President's submission on the reauthorization of ISTEA legislation this year.

I believe Senator Roth, and Senator Moynihan and Senator Jeffords introduced a bill last week at Senate Finance about creating a half cent dedicated capital fund for Amtrak for five years and out. Senator Chafee said at that hearing that he could endorse it. And I was stunned. I was sitting next to Tom Donohue of the American Trucking Association, and Tom said in the middle of his testimony, you know, the ATA could support a half-cent gas tax for Amtrak as part of a capital fund that would make it more efficient. I said Tom, is that the same Tom.

But there is a growing belief that Amtrak's needs on

capital are real, legitimate and may be able to be addressed in the context of the 4.3 cents. There are plenty of pitfalls around that whole scenario, and I have learned to take nothing for granted in Washington, because it is never over until it is over and in Washington it is never over. But we are further along now about a dedicated capital funding source than we have been in the history of the corporation. I understand that the expectation is that we are in this to recapitalize and out. And that is a discipline for us to manage. I hope it can be an outcome this year.

Mr. Packard. Ms. Molitoris, what is the Administration's position on that half cent?

Ms. Molitoris. The position of the Administration is really found in its NEXTEA proposal, in which it has Amtrak as part of the Surface Transportation Fund. And we see that as an opportunity in the next six years, to bring capital to Amtrak, 75 percent of what it is they say they need.

Mr. Packard. What is your opinion, Mr. Downs, on that approach?

Mr. Downs. With all due respect to the Administration and the Federal Railroad Administrator, I hate to be pushed into-- the corporation hates to be pushed into a perceived, very small room with all of the highway interests in America. The President's request states that Amtrak, its operating subsidy, its railroad retirement, its capital all belong in the Highway Trust Fund, and that we come out of the balances within the Highway Trust Fund without any additional revenue going into the trust fund. In the outlay, the numbers look like a reduction of about a half a billion dollars in outlay for highways. That is being in a very small room with a very angry industry. And I think it is not a good place for the corporation to be put without any additional resources coming in to offset that cost to the Highway Trust Fund. I very much appreciate the Administration recognizing that we need a trust fund and a trust fund structure. I very much appreciate their commitment to multi-year capital funding for the corporation as a part of that. I am very nervous about being faced off against the entire highway industry in a fixed sum or shrinking sum game.

Mr. Packard. It appears that you are in a game of brinkmanship, though, when it comes to the half cent, at least from your response.

I have no further questions, Mr. Chairman. I appreciate as much time as you have given me.

uses of a dedicated funding source

Mr. Wolf. Sure. Mr. Olver.

Mr. Olver. Thank you, Mr. Chairman. Let me just comment to a couple of earlier comments. I trust, Ms. Molitoris, that you are correct that bankruptcy is not inevitable, because I really believe that a safe and efficient national passenger rail system is an integral part of our overall transportation network. And I am quite willing to at least examine every hoop that has to be jumped through to provide that. In following up one more thing on the previous set of questions about the half cent, is that half cent meant for capital or would it be for

operating as well? Would it be just for capital or would it end up being used wherever it was needed?

Mr. Downs. Capital only, both--the Administration's proposal about capital increasing as operating subsidy is reduced is focused strictly on capital. It makes a very clear distinction between---

Mr. Olver. How much would that provide? Is that about \$700 million a year or thereabout?

Mr. Downs. Currently it is about \$745 million a year.

Mr. Olver. Okay, and--all right, then that leads me to a question which I think may be to each of you, and probably will require more than a moment's thought, unless you have it right at fingertips. I am curious whether there is any objective, hopefully objective, but quantitative study of the type of investment that is put into our whole rail system and as a subgroup our passenger rail system compared with the other--our other major industrial nations. Maybe the G7 nations, or some grouping that somebody might consider to be, perhaps, comparable. Do we know--do we have that kind of analysis of what goes into the--of capital investment in the whole rail systems and in the passenger rail systems of that group of nations?

We talk a great deal about what a huge portion of our economy is transportation. And, yes, our system is very different. We are a much bigger country and probably most like Canada than anybody else, though even that is not--they are perhaps a truly outlier in the G7 countries. So the combination of what is surface transportation and what is rail, what is air transportation are going to be somewhat different, but somewhere one ought to be able to at least start with these analyses and put them together and see whether you are doing what needs to be done if you really claim to have a transportation system, a national transportation system that is going to support this economy.

And we keep saying that it is somewhere between 10, 12 and 15 percent of the whole economy is directly transportation, and virtually all of it depends upon transportation if you look at the secondary or tertiary impacts.

Ms. Molitoris. Mr. Olver, I think your question is a very important one, because as we talk about, with all of the members here, the importance of Amtrak and the kind of investments that we are talking about. I would like to submit to the record for the Chairman and all the members of the committee some of the information that we have about investments which we have around the world in the first place, which are far greater than ours. Secondly, we have, as mandated by Congress, the Bureau of Transportation Statistics at the Department of Transportation now, which is responsible for gathering this kind of statistic for your review. And we will bring that kind of information to you.

I think it is very important to recognize that there is the difference between the passenger and the freight in the sense that the freight systems are completely privately owned. For example, since 1990 the freights have invested approximately \$90 billion in the infrastructure. As the President of Amtrak said, it is a capital intensive business. And we have to recognize that. The return on the investment, however, really needs to be evaluated on the basis not only of people moved but

what would happen if it wasn't there, the kind of impact on congestion, the kind of impact on air quality, the kind of impact on our society as our demographics show our society aging. You have to stay mobile if you are going to really be alive.

[The information follows:]

Clearly, the annual level of investment in passenger railways in other industrialized countries far exceeds that of the United States on both an absolute and per capita basis, as the following table exemplifies:

COMPARISONS FOR PASSENGER RAILWAYS IN INDUSTRIALIZED COUNTRIES

	Approximate Annual Railway Capital Investment (billions of dollars)	Po
U.S.A. (Amtrak).....	\$0.4	
France.....	1.4	
Germany.....	3.9	
Italy.....	5.2	

Sources: United States: average of Amtrak appropriations for capital investment, fiscal
European countries: derived from Jane's World Railways, 1996-97, pp. 458 (France), 47
(Italy).

Ms. Molitoris. So I think there is a whole discussion, as I mentioned to another member, that really needs to be looked at as you are evaluating how important this company is to a real national transportation system.

Mr. Olver. Well, that raises an interesting question, though. You have indicated that on the rail--on the freight side--that it is essentially private capital money that is going into that freight system.

Ms. Molitoris. It is all private.

Mr. Olver. And my guess is that in most of the countries that I have suggested as G7, whether that is a correct comparison or not, in many of those the freight side is part of the public system rather than part of a private system. So our investment on the freight side is probably higher because it is done where it is being done, and our investment on the passenger side--well, I am not going to prejudge what the results might be, but obviously that is a complication in the analysis--in a quantitative analysis that I have asked for. And I trust when you provide what you have on that, that you would give me a copy of whatever it is you are putting in the record so that I don't have to go and find exactly which time it appeared in the record.

Ms. Molitoris. We will make sure it gets directly to you, sir.

HIGH-SPEED INVESTMENTS

Mr. Olver. Thank you.

Mr. Downs. Mr. Olver, one thing. I think in France--I know that they have been investing in high-speed passenger rail at about \$4 billion a year U.S. dollars, but I was struck with one thing that they do differently and that we take for granted or is invisible. They don't plan capital investments in transportation by mode. They do it against business objectives or economic objectives. I had this conversation with your governor not too long ago, I guess about a year or so ago, about the economics of high-speed rail to Boston and what it would mean. He said this is kind of a no brainer for Massachusetts, it means that we don't have to build Son of Logan. That is a \$5 billion, maybe greater, investment that the commonwealth and the aviation industry would have to absorb. High-speed rail at a billion dollars is five to one more cost effective. And it takes that much off of Logan on day trips between Boston and New York.

Mr. Olver. Transportation departments in the corridor have been saying that for at least 20 years, and it will be another I don't know how many years before we finally got that up to not even high-speed rail standards, when we ought to be really talking about that corridor for MAGLEV, but it would be really something quite horrendous in terms of expense, I guess.

Mr. Downs. But the French think, for instance--they make conscious decisions about high-speed rail, for instance the use of Charles De Gaulle. They don't want De Gaulle being used for short, in-country air trips. The economic value of that airport is on longer distance flights, international flights, so they make high-speed rail investments to relieve the airport of non-economic, not high economic uses. We can't do that yet in the United States because we are so tied to modal funding between highways, transit----

MERGER

Mr. Olver. Well, sure. This is a very complicated analysis. We could--it is like an onion. We could peel pieces off of it and you take one piece and if you look only at one piece and you think you have got something, it is quite different from the whole pattern. But let me go on to a different thing.

I have, along with probably a lot of other people who have a much greater direct financial interest in the matter than I do, which is essentially zero, been watching with fascination the mating dance among Southern and Conrail and CSX. And I am wondering from both of your points of view, and perhaps particularly from you, Ms. Molitoris, whether there are implications of the end result there that you can see would be helpful to Amtrak and where you--and what your capacity to have influence on that is in your position.

One of the things in the--and I will get to that, if I am allowed, in relation to the proposed changes in service by Amtrak over the past year, last year, one of the things that was affecting the one that I have a parochial interest in was the difficulty of the arrangements that had to be made over Conrail-owned trackage. And if that trackage is in the hands of a sensible system that views it--that is viewed as part of a national system, it would seem to me that we would make certain

in that process that the needs of an effective rail system, which really has to operate pretty close to a schedule if it is going to be viewed by the public as something that they can rely on, that this would be your opportunity to solve problems like that in that system, within that system.

Ms. Molitoris. Mr. Olver, the potential application for a merger, which we have all been reading about, of course, is not finalized yet. It is not submitted, but we have understood that it will be within about 30 days. We have been keeping a very close eye on this. This is very, very important, not only to competition on freight, but to the enormous movement of passengers with not only Amtrak but the commuters. The Surface Transportation Board is the entity that makes the final judgments on these kinds of things, but the Department of Transportation submits its views on these issues. I know that I have talked to Mr. Snow, who is also concerned about the opportunity to perhaps find ways to give some dedicated right-of-way to passenger service, because they are concerned about liability issues.

I think that it is crucially important, for example, for Amtrak. There has been an agreement between Amtrak and Conrail that Conrail freights move at night. That gives safety to Amtrak trains. And safety is our number one business. So we are concerned not only about competitive issues with regard to this merger, because that is a crucially important issue. We are concerned about the impact on the vast movement of people, some 600 thousand per day in the Northeast, and how they will be affected. We are encouraged that Amtrak is talking to Norfolk Southern, for example. And there appears to be potential for partnerships in terms of moving mail and express. So the more we see in an application that reflects safety and that reflects an understanding of the impact on passengers, the happier we will be.

Mr. Olver. Well, I trust you will be aggressive, as aggressive as it is possible from the FRA's vantage point in this unfolding process.

Ms. Molitoris. Yes, sir.

ROUTE PROFITS

Mr. Olver. Thank you. I would like to just--more specifically to the Amtrak issues, the GAO report has been discussed. I had asked GAO whether there were any routes, because I had been trying to figure out what the different terminologies really referred to and trying to sort the terminologies that people in transportation use with ones that seemed logical to me. And I had asked them if there were any profitable Amtrak routes. And they said well, if you included both capital and--I think this is my understanding. And if they--if you included both capital and operating expenditure, that the answer was none. Is that correct?

Mr. Downs. No.

Mr. Olver. If you take into account both capital--account for both capital and operating expenditure, the answer is no?

Mr. Downs. On a fully allocated cost basis, a couple of months ago for the first time in our history Metroliner service, all metroliner service broke into profit.

Mr. Olver. So if fully allocated----

Mr. Downs. Fully allocated cost.

Mr. Olver [continuing]. It is now profitable?

Mr. Downs. Yes.

Mr. Olver. Okay, I see--the charts that I have seen show a positive operating ratio, but you--well, a positive profit loss, which gives you an operating ratio of under 1.0. Now the very terminology operating ratio used there would hide that this was on a fully allocated basis, because if it is only operating, then it is not taking into account capital. But you are saying capital fully allocated.

Mr. Downs. Fully allocated.

Mr. Olver. Metroliner is positive?

Mr. Downs. Yes.

Mr. Olver. All right. Then I asked them if you--we got into this with the GAO, and I think this is slightly different. I think they felt that that was not fully allocated, but that may be my misunderstanding.

Mr. Downs. This happened after they were finished their review with us.

Mr. Olver. All right. If--oh, I see. I see, okay. I then asked is there anything that operates profitably on an operating alone other than--and then they said Metroliner does, but they didn't think anything else does. Is that--is there anything on an unallocated, purely operating costs that is running now profitably?

Mr. Downs. Autotrain.

Mr. Olver. Autotrain? But none of the long distance routes, per se?

Mr. Downs. No.

Mr. Olver. Just Metroliner as a route, which is Washington to New York?

Mr. Downs. Washington/New York.

Mr. Olver. Is what Metroliner says?

Mr. Downs. Yes.

Mr. Olver. Okay. To get a little closer to the parochial, I guess, I have tried to understand as well as I could the components that go in. This itself is another onion. It is not just what the operating ratio may happen to be on these routes. But I note, for instance, that one route, and the only one--the only route that has a greater than three operating ratio in every one of the last three fiscal years, the only route that has that kind of an adverse number on operating ratio is not one of those routes that was considered in the reorganization, the changes that you had made last year.

All the others that at least had gotten under three, maybe they had been under three and went over three or some of them had one year below or at least were toying with that, some of them, and a couple of them were rather well below that. Why would--I should think that such numbers would have been an obvious target for such a route. And I don't want to--I will leave you to figure out which that is, but I think looking at the numbers that I have seen that there is one that was over a three operating ratio in every one of those years and was not touched.

Mr. Downs. I believe the worst performing route financially--and I don't have the exact number. The Sunset

Limited that runs from Los Angeles to Miami across the entire southern tier of the United States has--I believe is our worst performing route. Close behind it is the Cardinal from Washington to Chicago.

Mr. Olver. Well, I don't mean for you to try to figure out what----

Mr. Downs. The southern tier----

Mr. Olver. I will talk with you privately, because I don't want to go beyond that. It seemed to me, though, that with ratios like that that it ought to have been an obvious item. You had made----

Mr. Downs. One quick thing that led to a decision about, for instance, the Sunset Limited. The Sunset Limited is the east/west connection for every north/south train that we have in the United States. It is part of a network effect that without that train a number of routes like the City of New Orleans, the Crescent, the Star, the Meteor, the Coast Starlight, has no connection to other trains and the network effect is such that you have to anticipate the loss of connecting revenues from that train to other trains and from other trains onto that train. So it is not an easy comparison. That one is almost an essential link for having a network service. The loss of it not only would affect the economics of the Sunset Limited, but for five other trains that we operate.

Route Closures

Mr. Olver. Look, I am not attacking the Sunset Limited by any means at all. That is not the one, you know. And I am sucker for rational argumentation about these things, so all you have to do is to give me the factors that go in there and I will play the analysis, too. But let me go on.

You had mentioned a couple of times, you had alluded early of the five routes under closure last year, that you saw only one coming out. You didn't elaborate on it coming out positively. You did mention at that point the Texas Eagle. Later in discussion, I think it was with Mr. Callahan, you had also gotten back into some discussion about what was happening with those routes. Would you like to elaborate? Would you be able to elaborate on--I was, of course, disappointed at the idea that my parochial interest was not one of those that you thought had a chance of coming out of this positively. But would you like to update us on that?

Mr. Foglietta. I remind the gentleman that we do have a vote on.

Mr. Olver. Oh, we do?

Mr. Wolf. Yes, we do. And----

Mr. Olver. This is really my last question.

Mr. Wolf. Okay.

Mr. Olver. I don't know how long we have till the vote.

Mr. Wolf. We have about seven minutes, eight minutes.

Mr. Olver. I could do a quick----

Mr. Wolf. Go ahead and finish the question.

Mr. Olver. I can do a quick recount.

Mr. Wolf. Mr. Foglietta wants to make unanimous consent.

Mr. Foglietta. I would just like to ask unanimous consent to submit my questions.

Mr. Wolf. Sure, without objection.

[The information follows:]

Mr. Foglietta. No visit to this subcommittee would be complete without me asking you again about the status of the North Philadelphia Train Station renovation project. This is one of the most important projects in my district in North Philadelphia. For those of you who don't know, this project has been on the books for over 15 years. My sense is that we're getting closer and closer to making this project a reality. But as you and our Chairman know this has not been easy. The project has suffered delay after delay. Mr. Downs, can you tell us about the status of the North Philadelphia Train Station? and Specifically, when do you expect Amtrak to complete its portion of the project?

[The information follows:]

Amtrak's work can be broken into three major components: (1) Track-side improvements; (2) Retail-related improvements; and (3) Parking improvements for the new station.

Track-side improvements:

- (1) A new Amtrak station building is completed and open.
- (2) New platforms and canopies have been completed. Lighting to be completed by June 1.
- (3) Installation of 2 new ADA (American Disabilities Act) compliant elevators is complete. Final inspection by the state was on May 8. Elevators were placed into service.
- (4) Extensive tunnel work allowing access to both platforms under the tracks is nearing completion. This work has primarily taken place during inclement weather.

Retail-related improvements:

- (1) The first of two pedestrian bridges over the SEPTA tracks is now complete. The foundation for the second bridge has been laid and concrete deck has been poured. It is expected that the remaining construction work on the bridge will be done by June 1. The pedestrian covers for these bridges will be installed in tandem with the supermarket construction.
- (2) Retail Parking Lot--There has been a tremendous amount of work done in this area. Completed work includes grading; utility installation (in cooperation with the Federal Highway Administration, Penn DOT, SEPTA, and the city of Philadelphia), and demolition of old buildings. All work on this part of the project is scheduled for completion by July 1, 1997.
- (3) The State Historical Commission has given approval to Amtrak's plans for demolition work on portions of the old station building.

Parking Lot improvements for the new station:

- (1) There will be a sizable increase in the size of the Amtrak station parking lot. The lighting capabilities will also be drastically improved.
- (2) Amtrak crews have already commenced work on the north side of the tracks and are clearing the old lot as preparation to lay the new, larger one. Amtrak is ahead of schedule on this portion of the project and expects to have it completed by September 1997.

Amtrak expects to complete its physical contribution to this project by September 30, 1997, with most work being completed by summer. As the supermarket construction gets underway, Amtrak will look

forward to completing any remaining work tied to this project, such as the bridge canopy covers and extension of the terminal to the old station building.

[Pages 171 - 173--The official Committee record contains additional material here.]

route closures

Mr. Wolf. And Mr. Olver, you can continue and you can stay until you think you are fast enough to make the vote.

Mr. Olver. Well, if you can answer that in two minutes, I will stay and listen. Otherwise I will come back.

Mr. Downs. The long distance lines that we were targeting for elimination were the Desert Wind and the Pioneer.

Mr. Olver. Should I just recess this?

Mr. Wolf. No, that is okay. No, go ahead.

Mr. Olver. Because I am going to have to leave in two minutes anyway.

Mr. Wolf. No, that is okay. I will wait. Go ahead.

Mr. Downs. The Desert Wind is definitely going away on the 11th of May. I believe now that we know that the Pioneer will go away on the 11th of May. We are still in negotiations with the State of Texas and the Texas legislature over funding for that line. And on Mr. Callahan's line to Mobile, the tri-state commission meets tomorrow, I understand, to see if they can make a decision about the Mobile service.

Mr. Olver. The Mobile line is a section of what is the Southwest Sunset Limited.

Mr. Downs. Right.

Mr. Olver. So it is one section which was daily, one small section which was daily in an overall section which is tri-weekly.

Mr. Downs. Yes. And it was more--it is a commute line for business and tourism into New Orleans. On the Boston section of the Lakeshore Limited, I believe we could get to an agreement with the Commonwealth of Massachusetts over a facility that would allow us to use the mail and express revenue to change the economics of that route sufficiently so that it could survive long term, but it depends on the choice made by the commonwealth about whether or not it will commit capital to that line.

Mr. Olver. So you consider it in total to be not optimistic as you see it at the moment?

Mr. Downs. Well, it is in the hands--at least on the parochial line on the Lakeshore, it is in the hands of the commonwealth.

Mr. Olver. Thank you.

DEDICATED CAPITAL FUNDING NEEDS

Mr. Wolf. Mr. Downs, one of Amtrak's goals is to obtain a dedicated source of funding for capital investment, where the federal government would provide over 4.2 billion for capital investment over the next six years. Amtrak would like one-half cent of the 4.3-cent portion of the federal gasoline tax currently available for deficit reduction. Quite frankly, it is

going to be a problem, too, because there are some people that are concerned with regard to the deficit and think that if you were to use--take that 4.3 off you end up making it more difficult to reach a balanced budget. The one-half cent proposal represents about \$700 million per year. What does Amtrak plan to spend the money on in fiscal year 1998, if you were to be successful?

Mr. Downs. We have a process right now that is ranking all of our capital proposals. We do this each year on a scorecard process that ranks them on rate of return of the investment, either on cost avoidance or increased revenue or safety issue avoidance, for instance. We are pretty much into that process now, but I couldn't give you right now the exact capital budget that we would propose both to the Board and be able to illustrate for fiscal year 1998, but I believe that process would give us that capability all along.

Mr. Altschul. We should be able to have that within 30 to 45 days.

Mr. Wolf. If as soon as you have that, if you would bring it up to the committee, we would appreciate it.

Mr. Altschul. Okay, we will have it within 30 to 45 days.

Mr. Wolf. Would capital funding continue after the year 2002?

Mr. Downs. As I understand the language that was introduced by Senator Roth and Senator Moynihan and Senator Jeffords in the Senate, the clear intent is that the half cent would return to deficit reduction at the end of the five years. It would not stay within the fund. Our half cent would, in effect, by that law go away. We have been told that that is part of this process and it has to be part of the process, that this is a five-year capital investment decision. After that we either stand or fall on our own.

Mr. Wolf. What would happen after that, though? Do you really believe that would go off?

Mr. Downs. Do I believe it would go off?

Mr. Wolf. You know you would be up here at the end of that time asking for another year or two, would you not? Would you pledge absolutely, positively, categorically that you would be not back asking for an extension?

Mr. Downs. Cross my heart and hope to die.

Mr. Wolf. Would you pledge? Would you resign if you did?

Mr. Downs. It depends on if the business--

Mr. Wolf. Are you telling me that under no circumstances you would be asking for it to continue?

Mr. Downs. Well, I couldn't. It depends. If the railroad had a catastrophe, if we had some of the liabilities that come due for us on--for instance, without having limits on liability, could we propose to be totally independent of capital? We have had mandatories imposed on us with ADA station and equipment.

Mr. Wolf. Well, you are going to make a case so that it probably would not end. What if it did end, which I don't think it would, what would happen to you after the year 2002?

Mr. Downs. We think that we can make close to our cost of capital. And if we are not in a federal capital environment, the other part of the bill that is being considered is to allow the states the choice under NEXTEA to use their own capital

funds for Amtrak capital projects as they can for other transportation projects. We have been very fortunate in striking an agreement, a long-term agreement with the State of New Jersey for New Jersey Transit to make investments on the Northeast Corridor with their capital funds to defray part of the operating expense on their territory. And that is about \$25 million a year over the next five years, and that is absent the capability of using federal transportation capital dollars for Amtrak.

We think we can structure agreements with states that have--for instance, North Carolina is now buying its own passenger locomotives and cars with its own state general fund to be able to help defray part of the expenses of capital services. I think there are opportunities long term, if we are capitalized, to have states be the next primary source of capital investment for services that they want.

Mr. Wolf. What is your fall back if Congress does not provide Amtrak with a half-cent funding from the Highway Trust Fund?

Mr. Downs. If there is no capital funding and it is a straight line projection at current capital levels, we cannot make it. We can't make high-speed rail service work south of New York because of the continuing reliability problems south of New York with the entire electric traction, for instance, for the corridor with tunnel safety on the north end for the New York tunnels. All of those issues have to be addressed at some point with capital investment. Without them, we can't operate either safely or economically.

COMMUTER RAIL COMPETITION

Mr. Wolf. Also, too, I think Mr. Packard had a very valid point. I don't know that you are completely accurate. There are a lot of people that are avoiding Amtrak from Philadelphia to New York, who are going on the commuter trains from Third Street Station to Trenton and changing and going up. And the cost of that ticket is much less than it is for Amtrak. So I think you are losing sufficient amount of ridership. So I don't think your answer to Mr. Packard was completely accurate.

Mr. Downs. We have an agreement with New Jersey Transit about cross honoring tickets on the Clocker service that we operate hourly out of Philadelphia for New York and then in the evening back to Philadelphia. We would like to be able to price that better, but we haven't got the agreement structured yet about how to do that. We do, in some corridors, compete, but we don't like doing it. It is not that we cannot make money at a commuter price level. We can make it on more enhanced service, few stops, a more business program than a commuter rail. We cannot as a core business operate commuter rail in competition with other commuter railroads.

Mr. Wolf. But the difference in the price between going from 30th Street to Trenton and changing and going up to New York is significantly less than it is to ride from Philadelphia to New York on Amtrak.

Also, Ms. Molitoris, you mentioned about how wonderful it is in Europe with all the money and everything else. France's unemployment rate is very high. Germany's unemployment rate is

very high. You are comparing apples and oranges. It is totally, totally different. You can't fly from Munich to Berlin without it costing you a lot of money. Secondly, they don't have the parking problem. Thirdly, they don't have the distances. The size of Oregon is exactly the same size of Germany. So to compare these things is really not accurate. They don't have an airline that will take you from here to Providence, Rhode Island, for \$49. So I think there is a difference, and I think we have got to be careful that we don't just selectively present facts that really don't look at the whole broad basis.

Ms. Molitoris. Mr. Chairman, I think the question that I was answering to Mr. Olver was that I didn't say anything about wonderful. He just asked me about the level of investment. And I simply said they invest a lot more than we do.

Mr. Wolf. But also then their aviation is not as extensive as ours.

Ms. Molitoris. And I didn't comment on the whole.

Mr. Wolf. They don't have as many automobiles as we have. But I think selective answers really aren't very good. I think you have to look at the whole picture.

Ms. Molitoris. We would be happy to comment for the record for that, Mr. Chairman.

[Pages 178 - 195--The official Committee record contains additional material here.]

FRENCH HIGH-SPEED RAIL

Mr. Wolf. Also, has France cut back on the funding of the high-speed rail? We were told that they were going to build several other different routes and they have now cut back the funding because of their high unemployment rate. Is that accurate?

Ms. Molitoris. They have a large number of projects similar to Amtrak that are on a priority list, they have made decisions.

Mr. Wolf. To do what?

Ms. Molitoris. To invest. And some they didn't.

Mr. Wolf. Some that they had to make the decision that they are not going ahead with?

Ms. Molitoris. Not right now.

Mr. Wolf. Can you complete that for the record?

Ms. Molitoris. I certainly will.

[Pages 197 - 199--The official Committee record contains additional material here.]

dedicated funding source

Mr. Wolf. Amtrak suggests that it cannot become free of federal operating support without a dedicated funding source. However, Ms. Molitoris, the Administration did not support Amtrak's request for the creation of a new trust fund--a half cent of dedicated funding--in its fiscal year 1998 budget request or in NEXTEA. Why is that?

[The information follows:]

While the Administration believes that Amtrak should be funded from the Federal tax on motor fuels, it does not support the creation of a separate trust fund for Amtrak. As the Committee is well aware, there has been significant controversy over the last several years concerning the accumulating balances in the existing accounts of the Highway Trust Fund and we do not wish to compound the situation by creating a new trust fund or account.

The Administration's FY 1998 budget request and the NEXTEA proposal makes a substantial commitment of capital resources of Amtrak totalling \$3.4 billion over the next six years. This is equivalent to 89.8 percent of the capital Amtrak would receive under the bill recently introduced in the Senate (Intercity Rail Passenger Trust Fund Act) that would establish a trust fund with revenues from one-half cent of the Federal tax on motor fuels. The Administration also proposes that this funding come from the Highway Trust Fund and, beginning on FY 1999, be authorized as contract authority which provides the same level of certainty of funding as would be derived from establishing a trust fund.

Mr. Wolf. Ms. Molitoris, and Mr. Downs, if you could both please answer this question. A dedicated funding source for Amtrak implies a new mandatory program, yet another entitlement. How does the creation of a new mandatory program and greater federal subsidies induce greater operating efficiencies at Amtrak?

[The information from FRA follows:]

The Administration's proposal has two elements which are designed to assist Amtrak's efforts to improve service and to eliminate dependence in Federal operating subsidies. One is management and labor efforts to increase net revenues and the other is a reliable source of capital. Both are essential for the needed efficiencies.

[The information from Amtrak follows:]

Amtrak never understood federal funding of the nation's highways or airways to be ``entitlement'' programs. Neither do we think that similar federal support to intercity rail passenger service could be construed as an entitlement, given the fact that it is only for a limited time.

Substantial and consistent federal investment in the nation's highway and air transport systems have made them the envy of the entire world. The efficiencies created by these federal investments have been important contributors to the growing national economy. In other countries where governments have invested more heavily in rail passenger transportation (Japan, Germany, France, etc.), the rail systems make a bigger contribution to local economies than Amtrak can do.

Investment in Amtrak will induce greater operating efficiency now as it has in the past. Following the 1973 Energy Crisis which caused public demand for Amtrak service to multiply, Amtrak was given hundreds of millions of dollars in federal support for investment. These funds purchased new and rebuilt locomotives and cars, an enhanced Northeast Corridor

(especially south of New York), plus more efficient maintenance facilities. Following those investment, operating cost recovery went from below 50 percent to 80 percent. To reach self-sufficiency, we need to resume that kind of effort.

highway trust fund

Mr. Wolf. Does Amtrak believe that it is fair to divert one-half cent from the highway trust fund, which is collected from taxes assessed to road users, not from people that do use Amtrak? If so, please explain why.

[The information follows:]

With respect to the fairness issue, it is important to note several facts: First, Railroad passengers paid \$2 billion (unadjusted for inflation) in federal ticket taxes over a twenty year period without any infrastructure return or trust fund benefits; Second, railroads today continue to pay 5.5 cent fuel tax that goes toward deficit reduction and Amtrak gains no benefit from that tax, even though it is a relatively small amount; and third, Highway Trust Fund revenues are set aside in a Mass Transit Account, yet commuter rail operations are exempt from federal fuel taxes that pay into that account. I suppose the fairness of transportation tax use is under question in many public policy quarters. As you know, the Ways and Means Committee has created the Excise Tax Task Force to explore some of the questions of fairness on transportation taxes.

If fairness of taxes paid versus benefits derived were a significant issue among highway users, we think that they would be much more concerned with far larger cross subsidies that exist between the various categories of highway users which have been documented in a variety of studies over the years. For example, federal taxes are collected for gasoline used on all road despite the fact that only about 25 percent of national highway mileage is part of the federally supported system. This has not caused any great debate, nor do we think it should. A cents per gallon tax on motor fuel is simply a very efficient way to collect taxes. How those tax proceeds are used is a legitimate decision for the government that collects them. Highway users elect the legislators who make those decisions on their behalf.

And road users do benefit from Amtrak anyway, although we think that they would benefit more if they rode our trains. Amtrak service is most dense in areas where congestion on the highways is already a problem. Amtrak trains take traffic off the roads that would otherwise be even more congested. Outside the Northeast, Amtrak operates substantial service frequency clusters around Chicago, Los Angeles and Oakland. In addition, when highways (and airways) are closed due to extreme weather conditions (such as January 1995 in the Northeast), Amtrak is usually able to provide substitute service for highway users who must still get to their destinations.

Furthermore, Amtrak, like air and bus travel, is many times safer than travel by automobile. To the extent that any of the commercial modes of transportation diverts travel from automobiles, safety on the highways improves.

need to subsidize amtrak

Mr. Wolf. Why should federal taxpayers, most who do not use Amtrak, subsidize the system, whose ridership is highest in the Northeast?

[The information follows:]

First, it is important to correct the statement in the question. While Amtrak ridership is very dense in the Northeast, more than two-thirds of travel on Amtrak, measured in passenger miles, in our two business units outside the Northeast. In fact, much of our support comes from rural areas that have few transportation alternatives--limited or every expensive air service, little or no bus service and low income earners where driving a car is not a serious option.

No taxpayer uses each and every service funded by the federal (or any) government from the taxes that he or she pays. For example, we all pay federal, state and local taxes to support education, but not all of us have children in school. Taxes are paid to support a wide variety of common programs that make sense for the nation as a whole, whether each and every one of us uses all of them or not. It makes sense to have a well-educated electorate and workforce in order to be a strong nation, so we do that. It also makes sense to have a diversified transportation system that maximizes safety and is not overly dependent on increasingly limited resources like urban land and petroleum.

We think that it is in the best interests of the nation to have an operationally self-supporting rail passenger system that could be expanded to more effectively serve the United States. There are areas of the country where more Amtrak service would contribute to alleviating congestion in other modes and forestall the need to build more highways through established neighborhoods. But few of us would want to have more rail service if that meant more subsidy. That is why it is in everyone's best interest to build a rail passenger service that is operationally self-supporting.

Mr. Wolf. The majority of Amtrak riders have middle to high incomes. Low-income Americans are much more likely to ride buses. Since Amtrak caters to a comparatively affluent market, why should Amtrak receive a federal subsidy?

[The information follows:]

Amtrak has substantial ridership from all economic levels. Intercity rail passenger service occupies a market niche, with respect to income, between bus and air. Actually, the percent of ridership that has the lowest incomes (under \$25,000 per household) on Amtrak is almost the same as bus (19 percent versus 21 percent).

While the average household income of passengers riding Amtrak may be slightly higher than the United States average, it is also important to consider other demographic features. For example, if service to older Americans is important, it is significant to note that the percentage of passengers over 55 using Amtrak for intercity travel exceeds the percentage for any other mode by a wide margin. Forty-six percent of Amtrak

riders are over 55.

amtrak user tax

Mr. Wolf. Should Amtrak users pay one-half cent towards capital expenditures instead of all federal gasoline taxpayers? How much funding would this idea collect on a yearly basis?

[The information follows:]

If Amtrak riders were to pay a .5 cent tax on all intercity (non-commuter) tickets, it would raise approximately \$1,050,000. It would not generate the necessary amount of revenue. In addition, if Amtrak is already maximizing revenues, an increase in ticket prices could have the effect of losing total revenue.

decreased federal support impact

Mr. Wolf. Since trust fund monies must be appropriated, what are the various scenarios for Amtrak's future if none, some, or all of this proposed federal support does not occur?

[The information follows:]

A secure stream of capital, with either direct spending ability or contract authority, would enable Amtrak to do long term planning, invest in new passenger equipment and plant modernization, enhance the corporations ability to raise funds in the private market, and consequently decrease Amtrak's reliance on federal capital support. If the Congress were to provide contract authority and at some point impose an obligation limitation to limit the available funds to less than the total amount of revenues generated by the $\frac{1}{2}$ cent of the excise fuel tax, Amtrak would still realize these benefits.

Without such a dedicated funding source Amtrak is completely dependent on the less-than-certain actions of the Congress. This uncertainty hampers the company's ability to enter into long-term contracts.

If this level of federal support does not occur, we will not be able to maintain a national passenger rail system.

amtrak ridership

Mr. Wolf. Last year Amtrak estimated that the ridership from the Northeast Corridor would grow about 2 million passenger trips; however, this ridership was sensitive to decreasing airline fares. Since Amtrak testified, Southwest Airlines, a low-cost airline, has begun service along the Northeast Corridor. Mr. Downs, has Amtrak seen any decrease in the passengers since Southwest began servicing markets in the Northeast?

Mr. Downs. No, as a matter of fact, our core passengers ridership is growing gradually in the Northeast Corridor. We have tried to strike a deal with Southwest Airlines. We have been unsuccessful so far. Their market is Boston. They land in Providence. We stop in Providence. We will stop high-speed rail in Providence when it is on line. We think we are a good connector from Providence to Boston for Southwest. We also stop

at BWI, where their hub is, and we are about a quarter of a mile from their terminal location, so we think we can be a good extension of their service from BWI to Providence. And I think that will ultimately result in a partnership.

Mr. Wolf. Which would do what?

Mr. Downs. Joint ticketing or through ticketing that would allow you to take the train to BWI, get on a Southwest flight at Providence, get off at Providence and take the train to Boston.

Mr. Wolf. What impact do you think Southwest could have on the long term? Have you looked at it?

Mr. Downs. I believe that Southwest is in the hub to hub marketplace. They do not seem to be interested in markets that most other airlines have abandoned. They have chosen hubs, though, they are for instance, in Denver. The fastest growing airport in the United States is not Denver now. It is Colorado Springs.

Mr. Wolf. Colorado Springs, because of landing fees.

Mr. Downs. Because of landing fees. That is a phenomena around the country where airports like BWI that are lower cost than National, for instance, get the Southwest Airline business. They are still major hubs. They are not intermediate stops. They are not Minot, North Dakota. They are not Whitefish, Montana. They are not Spokane. They are not any of the lines where we think we can develop some pretty hefty business. Some of our seats in some of our trains turn over four times en route, so that we sell the seat four different times. Somebody said once well, how can you compete between Chicago and Seattle for passenger business. The answer is ultimately we don't. We compete between Minneapolis, St. Paul, and Minot. We compete between, say, Dodge City and Albuquerque or Albuquerque and Los Angeles for that kind of business, so it is intermediate city pair business.

northeast corridor ridership projections

Mr. Wolf. Has Amtrak updated its ridership projections for the Northeast Corridor based on the introduction of service by Southwest Airlines? If so, please discuss any ridership changes. If not, please explain why.

[The information follows:]

While the introduction of Southwest Airlines provides a challenge in the Northeast Corridor, it also offers a new business opportunity. In the last two years, a number of economy airlines have provided short-lived competition in the Northeast. However, in November, Southwest launched service between Providence and BWI. The rock bottom airline fares and time savings have contributed to a total ridership loss of 0.4% (40,000 trips) against the NEC's annual ridership base of 11 million trips. The NEC's projections have been adjusted accordingly. But Amtrak also views Southwest as a potential business partner. Southwest and Amtrak are exploring ways to provide a seamless connection. Similar to those who travel on Amtrak for flights from BWI airport, efforts are underway to launch a joint promotion that would encourage Amtrak ridership to Green (Providence) Airport. The strength of this opportunity

is demonstrated by the fact that Metroliner ridership to and from the BWI Airport station grew nearly 200% from fiscal year 1995 to fiscal year 1996.

status of route restructuring and costs

Mr. Wolf. In September and November of 1996, Amtrak sought to eliminate five routes; however, Congress provided supplemental funding so that Amtrak could continue operating these routes until states had the chance to ``buy back'' these services. At the time, Amtrak told Congress that it would require \$22.5 million to continue service along these five routes for a six-month period. It is my understanding that Amtrak has now reevaluated these costs. Currently, what does Amtrak believe the costs will be to maintain service along these five routes?

Mr. Downs. I don't believe we ever--at least I did not say that it would be \$22\1/2\ million. I remember a call that Senator Hatfield made during the appropriations conference to me. He asked me directly how much would a six months extension cost. I said \$44 million. He said that is too much money, I am sorry, that is the end of the story. That was as truthful a number as I could get.

A number of folks then looked at our route and passenger system economics and showed that this line for six months incurred operating losses of about \$22\1/2\ million. And they said okay, well, then it must be that you are going to lose \$22\1/2\ million as a result of keeping these trains on, that is the price. What we said after that was we didn't sell any tickets on these trains for three months. So these trains will be running empty. We didn't have any marketing pegged for this, so no one was selling these tickets, not travel agents, not our RSOs [reservation sales offices] or anyone. So when the big CR extended those routes for six months, revenue losses we tried to quantify the base data that showed the allocated loss for these trains was \$22,500,000.

We think that we are now going to lose an additional, beyond the \$22,500,000, that we will lose about \$13,500,000 more than the \$22,500,000 by running those trains for the additional six months, so that the net outcome for us was a \$13,500,000 loss.

Mr. Wolf. Would you please give us the actual cost of personnel and equipment and lost opportunity and expand for the record?

If Congress did not provide sufficient funding to continue service along these five routes, tell us how Amtrak plans to fund these routes for the six-month period.

Mr. Downs. Out of our deficit, we borrowed money at the end of the year from cash from banks. It is coming out of our end-of-the-year borrowing.

Mr. Wolf. Which would mean?

Mr. Downs. We are going to borrow \$13,000,000 more than we needed to.

status of state buybacks

Mr. Wolf. Have any of the states committed to buying back

these routes, and if so, which ones?

Mr. Downs. We have in effect ended all of our opportunities for any state participation in the Pioneer Route and on the Desert Wind.

We are awaiting a last tri-state commission meeting tomorrow on the Gulf Coast Coast Ltd. service, the service that Mr. Callahan alluded to between New Orleans and Mobile, and we have the Texas legislature working very fast today, waiving a number of rules in the legislature to pass a bill that would fund the extension of the service on the Eagle until the first of October, but that is as far as they are going.

Mr. Wolf. Why until just the first of October?

Mr. Downs. They wanted to see if there was a way that the actual mail and express business could develop enough so that there would be a viable future there. The governor has been reluctant to make much of a state commitment beyond getting this train to another kind of business.

The legislature is not doubtful but cautious about any investment in us beyond the first of October, which is the end of this fiscal year for us, and I think that they have decided that they will make that commitment to this line.

On what Mr. Olver represents a portion of, as I said, we are dependent on some final negotiations with the Commonwealth of Massachusetts about a mail and express facility, and absent that, I don't know of any way to make that route viable.

Mr. Wolf. At the same time that Amtrak sought to terminate routes, it also sought to increase service along other routes. Please highlight what routes these were and the service changes.

Mr. Downs. We made a determination after doing a lot of customer work about frequencies. I think we made a fundamental mistake in trying to reduce frequencies on routes, as I said earlier. It is an assumption that customers will change their travel plans to make their travel plans fit your day-of-week travel capabilities, which was an assumption that was wrong. Customers won't--if they want to go on Monday, they don't want to hear that they can't go until Wednesday.

We had several routes that were less than seven days a week that we thought we could develop both passenger service and mail and express. Moving equipment to those lines to better utilize it, get a better rate of return, was part of the strategy.

The ones that were going to seven days a week were the Empire Builder, between Chicago and Seattle, because we think it has not only tourism but mail and express business. The City of New Orleans, between Chicago and New Orleans, has returned to seven days a week; and a third Florida frequency, where we have a much better ridership, was added as a result of that on a seven-day-a-week schedule. Also, the return of the Zephyr which is from Chicago, Salt Lake City, and Oakland, California, to seven-day-a-week service for the exact same reasons, tourism, but also mail and express.

That would leave us with a system that is basically seven day a week on our long-distance trains in order to be able to maximize this new business.

Mr. Wolf. We will have some other----

Mr. Olver. Could I----

Mr. Wolf. Sure.

Mr. Olver. Has that been successful?

Mr. Downs. We just got from the board last week the authority to lease the additional equipment that we would need to be able to expand that.

Mr. Olver. So you haven't actually put that in. That was part of last fall's plan but it has not yet been implemented?

Mr. Downs. It has not. We have not even received the cars yet that would allow us to expand the business, but they are in process. They are on order.

Mr. Olver. I see. All right.

Mr. Wolf. To date, has Amtrak implemented any service increases on these routes? If not, please explain why and when these service increases may take effect.

[The information follows:]

The following table, taken from page 5 of Amtrak's fiscal year 1998 Grant Request submitted to Congress on February 14, 1997, outlines the services implemented as planned.

TABLE 3.--FY 1997 PLAN ACTIONS AFFECTED BY OMNIBUS APPROPRIATIONS ACT

Plan Actions Affected By OAA	Implemented as Planned?
Route and Service Discontinuances:	
Desert Wind (Salt Lake City--LA, tri-weekly).	No.
Pioneer (Denver--Portland, tri-weekly)	No.
Texas Eagle (St. Louis--San Antonio, tri-weekly).	No.
Lake Shore Limited (Boston--Albany segment, daily).	No.
Sunset Limited (Sanford--Miami segment, tri-weekly).	Yes.
Gulf Coast Limited (New Orleans--Mobile, daily).	No.
Route and Service Restorations:	
City of New Orleans (Chicago--New Orleans): 6 days/wk to 7 days/wk.	No.
Empire Builder (Minneapolis--Seattle/Portland): 4 days/wk to 7 days/wk.	No.
California Zephyr (Salt Lake City--Oakland): 4 days/wk--7days/wk.	No.
Crescent (Atlanta--New Orleans): 4 days/wk--7 days/wk.	Yes.
Silver Service (New York-Miami): Add third frequency.	Yes.
Restoration of the Broadway Limited/Three Rivers Extension from Pittsburgh to Chicago.	Yes (but smaller consist).
Speical Trains.....	No.
Equipment ``Run Throughs'' and Operational Improvements:	
City of New Orleans/Empire Builder Run Through.	No.
Southwest Chief/Capitol Limited Run Through.	Yes.

Interchangeable Consisting: LakeShore/ Yes (Crescent and Silver
Crescent/Silver Service/Broadway. Services only).

Mr. Wolf. Amtrak planned to increase services along certain routes in order to improve its revenues. If Amtrak was unable to increase services along certain lines, what impact did this have on Amtrak's 1996 bottom line? What impact is projected in 1997?

[The information follows:]

The following table shows the impact of the Omnibus Appropriations Act on the Business Plan approved by the Board of Directors for fiscal year 1997.

[Dollars in millions]

	FY97 OAA (12/ 1/96)	FY97 BUSP (10/1/96)
Revenue.....	1,615.5	1,622.
Expense.....	2,377.7	2,348.
Operating P/L.....	(762.3)	(726.
Federal Operating Support.....	447.8	425.
Net Operating P/L.....	(314.5)	(300.
Non Cash.....	270.1	270.
Budget Result.....	(44.4)	(30.

Profitable Routes

Mr. Wolf. Is it feasible to assume that one day Amtrak may be able to run profitable routes, when you take into consideration both operating and capital expenses?

[The information follows:]

It is certainly feasible for some routes to be profitable while it is less likely for others. For example, the Autotrain and Metroliners as well as many State supported trains have a strong potential for achieving revenues that cover both operating and capital expenses in the future. The Metroliner product line generated enough revenue in fiscal year 1996 to cover 100% of its fully allocated operating expenses (including depreciation) and generate \$14 million profit. Amtrak's fiscal year 1996 study on EVA (Economic Value Added), showed that if the Metroliner product line paid a similar fee for using the infrastructure as Amtrak's trains that run over freight owned right-of-way, it would also cover its cost of capital as well.

The potential profitability of any route depends on the current condition of the equipment, stations, mechanical facilities utilized as well as the revenue potential from passengers and state partners.

Mr. Wolf. What needs to be done to increase Amtrak's profitability along all of its routes?

[The information follows:]

Four critical things need to continue if Amtrak's core intercity train routes are to continue to improve their financial performance:

Investment in appropriate capital assets such as equipment, station improvements, maintenance facility improvement, information systems to reduce costs through efficiency and improved quality and increase revenue through increased ridership and fares;

Continuous improvement of product design which meets customer demands in a way that both attracts new customers and the frequency of use from existing customers. These improvements must generate more revenue than cost to reduce the routes loss;

Continuous improvement of processes to improve the quality of the product and reduce the unit cost of providing the product to the customer;

Judicious use and continuous realignment of precious assets in ways that provide the highest possible return relative to the investment.

Mail and Express Service Revenues

Mr. Wolf. What routes can Amtrak maximize its mail and express revenues on?

[The information follows:]

Amtrak has the right to carry mail and express on each of its routes. The potential revenues for mail and express is great on a number of routes. Total annual revenues generated by trucks is in excess of \$220 billion. The freight railroads carry about \$35 billion annually. The kind of express Amtrak is considering would only be a fraction of what either of those are today. This has two positive outcomes. First, a more aggressive approach to mail and express will immediately improve the economics of those long distance trains that will run this service. It will also allow Amtrak to pay the freight railroads more for the same train that operates over their track today. When passenger trains were in their heyday, almost half of the revenues were attributed to mail and express. Today we are only averaging about six percent for mail and express. Currently, mail and express revenues account for \$65 million annually, (\$62 million from mail and \$3 million from express.)

Amtrak believes that it can significantly increase revenue derived from both mail and express on each of its routes. In order to do so, Amtrak needs to restore daily service to each of the remaining routes and acquire additional express handling equipment. The routes with the greatest potential include the Southwest Chief, the Empire Builder, the California Zephyr, the Capital Limited, the Three Rivers, the Texas Eagle, and the three New York-Florida trains.

Mr. Wolf. Are any of the soon to be terminated routes key to increasing mail or express service?

[The information follows:]

Amtrak believes that the potential exists to generate considerable mail and express revenue on each of the routes slated for discontinuance. Once the market is developed along these routes, the revenue derived from mail and express could cover the operating loss generated by these trains.

In fact, Amtrak is close to reaching an agreement with the State of Massachusetts to retain the Boston-Albany section of the Lake Shore Limited. The state is proposing to construct a large mail and express handling facility in Springfield. Should this facility be constructed, Amtrak could generate enough revenue to justify the continued operation of the Boston-Albany section of the Lake Shore Limited.

The State of Texas is considering a legislative package that would allow Amtrak to continue to operate the Texas Eagle through September 31. This extension would give Amtrak much needed time to develop the mail and express market in Texas. Should Amtrak have to discontinue the Texas Eagle on May 10, it would be very difficult to reestablish service at a later date.

penn station redevelopment protect

Mr. Wolf. I am going to go through some more, questions on Pennsylvania Station and then I will recognize Mr. Tiahrt.

Last year the IG told us the \$315,000,000 cost estimate for the Pennsylvania Station redevelopment project in New York City was completely unreliable. She added, ``I think at this time the most correct thing that can be said about how much the Farley Building is going to cost is that nobody knows. It is an open-ended figure.''

Ms. Molitoris, is there a more reliable estimate today, and for the record, please provide the committee with this project's new budget estimate.

Ms. Molitoris. Mr. Chairman, there is a new budget estimate. O'Brien Kreitzberg has completed a new budget estimate, and we are expecting a presentation next week on that assessment. It was higher, but the presentation we will be receiving is on the restructuring of that proposal to fit the commitment which we have already made and which we will not raise.

Mr. Wolf. You have made it clear that the federal government will not go over that?

Ms. Molitoris. I think that is not only ourselves, Mr. Chairman, but the city and state of New York. All of us are committed. We have made our investment statement and the project should fit that available resource.

[The information follows:]

The Pennsylvania Station Redevelopment Corporation (PSRC) Board has not met to review, discuss or accept the new budget estimate prepared by O'Brien Kreitzberg. When the budget estimate is accepted by the PSRC Board, I will be able to respond to your request. But as I stated, the Federal commitment is \$100 million and we will not go over that figure.

Mr. Wolf. Will that include the cost estimate for the

necessary tunnel work?

Ms. Molitoris. We will--I presume it is, because that is a safety issue that is important, but I would like to get the presentation complete next week and then we will present it for your review.

Mr. Wolf. The IG staff said the cost would be \$450,000,000 to \$500,000,000.

Ms. Molitoris. My understanding, sir, is that the O'Brien Kreitzberg estimate was not that high, but I would like to get the real numbers in the presentation and then bring it to the committee.

Mr. Wolf. Please. Mr. Downs, based on the new cost estimate, does Amtrak believe that it is financially prudent to continue to rehabilitate Pennsylvania Station?

Mr. Downs. We are not part of the Penn Station Redevelopment Corporation Board, and we are now separated out from that entire operation. We gave them notice a couple of weeks ago of our intention to segment this process, segment this project.

Our interest is in taking care of the old Penn Station upgrades that need to be in place for the implementation of high-speed rail in the northeast, that we will have responsibility below the Farley Building only, being the air space above our tracks, and in old Penn Station.

We have disengaged the corporation from any real participation either at the board level or in decision-making around the Farley project.

Mr. Wolf. What is the commitment of the state and city, and how much money have they put in so far?

Ms. Molitoris. They have identified their money. It is \$100,000,000 from us and \$100,000,000 from them and \$115,000,000 from private resources that would be accrued from the retail opportunities.

Mr. Wolf. For a total of?

Ms. Molitoris. \$315,000,000.

Mr. Wolf. So if what the IG said was accurate, what would that mean?

Ms. Molitoris. Mr. Wolf, we are not changing our commitment.

Mr. Wolf. I know. I just want you to tell me what do you think it would mean if the IG were accurate. What would that mean?

Ms. Molitoris. I don't think that the report, the suggestion that she made was accurate. I do think that the O'Brien Kreitzberg estimate was higher, and I believe that the presentation we will hear is how the project will be redesigned to fit the resources.

Mr. Wolf. The administration is requesting \$23,450,000 for Pennsylvania Station redevelopment efforts in fiscal year 1998; however, it is unclear from Amtrak's grant request whether you are requesting funding as well.

So you are just pulling out, is that what you are telling us?

Mr. Downs. Our agreement was that I notify the Penn Station Redevelopment Corporation and the city and state of New York that our interest is not in the Farley Building. It is in old Penn Station, that our commitment is to do whatever we can to

rebuild the existing old station for safety, for health and life safety, and to accommodate high-speed rail.

Our intention is that we are not a participant in decision-making or funding of the Penn Station, Farley Project.

Mr. Wolf. Has that changed since last year?

Mr. Downs. Yes.

Mr. Wolf. When was that changed?

Mr. Downs. About three weeks ago.

Mr. Wolf. Three weeks ago.

Mr. Downs. I did that in writing, but I would be glad to submit a copy of that to the committee.

Ms. Molitoris. Mr. Chairman, also, I would like to submit this letter for the record. It was just sent on the 17th of March from Charles Gargano, and it is the statement of the commitment of the city and state money.

Mr. Wolf. Please.

[The letters follow:]

[Pages 211 - 214--The official Committee record contains additional material here.]

Mr. Wolf. Does Amtrak plan on using any of its appropriated funds at all for the Pennsylvania Station in 1998?

Mr. Downs. I believe we have several health and life safety projects still ongoing within the old Penn Station part of the project.

I believe part of that is earmarked for demolishing a part of the old Penn Station under Madison Square Garden and rebuilding it into better crew quarters and getting some of the final rounds of asbestos abatement out of the building.

I believe that is what is in the capital budget for 1998, but I would need to verify that and submit that to you in detail.

[The information follows:]

Amtrak's FY98 Capital budget will be approved by the Board of Directors subsequent to enactment of the FY98 appropriations. Therefore, at this time, there are no specifically approved plans with regard to the utilization of capital funding for New York's Penn Station. However, as part of the proposed FY98 Capital Plan, there is \$11 million identified specifically for Penn Station improvements. In addition, it is expected that some funding for the ongoing life safety/operational reliability for NEC stations program as well as funds from the high speed rail program could be directed to Penn Station.

Planned projects, related to ongoing capital improvements at Penn Station, include continuation of life and safety related initiatives and other enhancements necessary for the high speed rail program expected to begin operation in late 1999. In particular, passenger wayfinding and circulation will be improved so that in an emergency passengers will be able to quickly reach the nearest means of egress and, under normal operating conditions, better pedestrian flows are created. Other potential projects include the identification and repair of deteriorated steel and concrete supporting the Penn Station train shed, which poses a threat to customers and equipment;

full fire protection and public address system for the ``A'' and ``B'' levels; physical/technical coordination of fire protection and emergency communications; installation of a smoke exhaust system; asbestos abatement; and escalator and elevator upgrades.

Mr. Wolf. To date, \$77,700,000 has been provided to the Pennsylvania Station redevelopment project; \$51,500,000 in direct appropriations and \$26,200,000 authorized in the National Highway System's bill. How much has Amtrak obligated and expended? For the record, please specify what this funding has been used for, i.e., planning, asbestos removal.

[The information follows:]

A total of \$76.4 million has been provided for the Pennsylvania Station Redevelopment Project. While \$26.2 million was authorized in the National Highway System Designation Act (NHSDA), only \$24.9 million was available since the Federal Highway Administration was required to impose a 12.5 percent permanent across the board reduction in all Intermodal Surface Transportation Efficiency Act (ISTEA) funded projects and programs for fiscal year 1996. This reduction was required under the provisions of section 1003(c) of ISTEA.

As of March 28, 1997, a total of \$40.5 million has been obligated with \$22.8 million expended. The \$22.8 million has been used for:

- Environmental and historic assessments;

- Architectural and engineering services including schematic plans (30 percent design), cost estimates and structural steel, retail and asbestos studies;

- Safety-related emergency repairs at Penn Station including planning, design and improvements for train shed leak repairs, installation of closed circuit television and public address systems and dynamic and static signs, smoke and firestopping repairs, and asbestos abatement and under the Farley Building concrete and structural steel remediation; and

- Planning, design and improvements at Penn Station for the Americans with Disabilities Act key station compliance and rehabilitating crew facilities and at the Service Building chimney stack removal.

northeast corridor capital expense transfer

Mr. Wolf. In the 1996 appropriation, language permitted the transfer of up to \$20,000,000 from capital expense to Northeast Corridor. At last year's hearing, Amtrak testified that it planned to transfer and obligate \$9,000,000. Did the agency transfer the remaining \$11,000,000? If so, what was this expended on?

[The information follows:]

The Conference Report on the fiscal year 1996 appropriation provided Amtrak with the ability to transfer not more than \$15 million from the capital account to the Northeast Corridor Improvement Program (NECIP). The Conference Report also provided Amtrak with up to \$20 million from the capital account for emergency life safety repairs at Penn Station and for the

reconstruction of the station's service building to provide the support services necessary for the safe operation of the station. Amtrak did not transfer any funds from the capital account to NECIP. However, Amtrak identified and obligated \$9 million for three projects at Penn Station including the planning, design and improvements for the Americans with Disabilities Act key station compliance and rehabilitating crew facilities and at the Service Building chimney stack removal. Amtrak expects to use the remaining \$11 million to complete improvements at Penn Station but the funds have not been transferred or obligated.

fra railroad merger process

Mr. Wolf. Mr. Tiahrt.

Mr. Tiahrt. Thank you, Mr. Chairman. Welcome to the committee. I am new on this committee, so I am a little bit behind the power curve on some of these questions.

I have some basic questions that I would like to ask and then a couple of specifics.

How involved is the Federal Railroad Administration in the merger process of railroads? What role do you play in the merger, for example, the Union Pacific and Southern Pacific merger; what role did you play in that?

Ms. Molitoris. We were the lead agency in advising the Secretary on all of the implications of that merger, and then we worked with the Secretary's policy office to submit the views of the Department of Transportation to the Surface Transportation Board.

Mr. Tiahrt. You feed information to the Surface Transportation Board, is that right?

Ms. Molitoris. It is an official submittal of our assessment and what we believe is necessary for retaining competition and other issues, safety.

Mr. Tiahrt. Safety issues. Were you actively involved when the Union Pacific and Southern Pacific first came then as far as looking at, for example, Wichita, the increased number of trains coming through Wichita?

Ms. Molitoris. Our staff worked on all of the issues including congestion, safety, competition.

wichita merger

Mr. Tiahrt. Right now, we are going through a mitigation study trying to figure out which of those 26 arteries in the county that Wichita is in, and we understand the train traffic may be as many as 12 manifest trains which are 135 cars long. They have to go ten miles an hour through Wichita, and it has created a very big concern there about not just delays for the common citizen but also safety concerns.

The railroad separates the east side of Wichita from the west side of Wichita. With the increased train traffic due to the merger emergency vehicles will be impeded, police vehicles will be impeded, firemen, ambulances, et cetera. In addition, with the new proposed environmental air regulations Wichita is currently borderline, and although the wind blows quite often, some days, it is calm.

We usually write it on the wall somewhere because it is so unusual, but in those calm days with additional traffic backed up, it can push us over the danger threshold and cause problems in our funding schemes.

We have a big problem in Wichita, and probably need about ten grade separations. It is a tremendous problem that we are trying to deal with.

Ms. Molitoris. Mr. Tiahrt, I have spoken to the director of transportation and he was giving me the same message. What I offered to him and would like very much to work with you, with our regional office in that area, and our grade crossing managers to work with you to develop a dialogue with the city and the railroads to come up with an optimum plan on how to deal with any investment needs and other ways of dealing with it. There are some options that we might explore.

determining route viability

Mr. Tiahrt. I would certainly welcome any help as we try to pursue this.

Amtrak comes through Newton, Kansas. How do you determine which routes are going to be maintained and which ones are you considering closing some down? Is there a cost analysis that is done or what is the process you go through when you decide to continue a route or consider closing one down?

Mr. Downs. By the way, I am pleased to see a fellow Kansan on the committee.

Mr. Tiahrt. Thank you.

Mr. Downs. We try to look at it from a business network standpoint, which routes are essential to a national network that we could develop the best passenger and mail and express business.

The Southwest Chief which does stop in Newton is a kind of unique train for this. It is currently seven days a week. It carries--as I mentioned earlier, the Southwest Chief carries about 42 percent of its revenue in mail between Chicago and Los Angeles, so the train is a valuable bottom-line product for us.

It is intended to be part of our long-term network. It also is part of our strategy for expanding mail and express. I would like to see over half of the revenue on that train be mail and express, and I would like to develop that as a local business opportunity as well as a long-haul mail and express.

The long and the short of it is, we judge each route on its overall economics. The Southwest Chief has some pretty good economics because of its mail business.

Mr. Tiahrt. It was interesting that you were looking at the Northeast Corridor and talking about Southwest Airlines, I assume that is correct? We have a problem of not being able to allow Southwest Airlines to come into Wichita because of the Wright amendment, and it may have made it more viable to run a train down to Oklahoma City and Dallas, but I believe that route goes to Santa Fe instead.

I wondered if you had ever considered a Kansas City-Wichita-Oklahoma City-Dallas route, and I don't know how you would make an analysis of that, but I assume that you don't own all the track that you run on.

Mr. Downs. We own none of our trackage except in the

Northeast Corridor. We have done some preliminary reviews of that because of some interest in Texas about the future of the Texas Eagle long term, and whether or not the business is better in making it a Chicago-Kansas City-Wichita-Dallas-Fort Worth, I believe that train used to be called the Lone Star, and it was a viable route until 1979. It was still an active passenger line. I even remember riding on it.

It has some better economic prospects of working as an alternate to the current alignment of the Eagle which is Chicago-Little Rock-Dallas-Fort Worth-San Antonio, and if part of the economics that we have been asked to look at by a number of folks in Texas and Oklahoma have been the viability of a line instead that would run, as I said, Chicago-Kansas City-Wichita-Dallas-Fort Worth.

Mr. Tiahrt. If you have a map of where your routes are currently, I sure would like to have one. Thank you.

Mr. Chairman, I don't have any further questions at this time, but I would like to have the opportunity to submit some in writing.

Mr. Wolf. Without objection.

Mr. Downs. Thank you, Mr. Tiahrt.

recent rail safety issues

Mr. Wolf. Between 1990 and 1991, the Federal Railroad Administration was the subject of several highly critical GAO reports on the rail safety oversight program. These reports showed an agency lax in its inspection practices and reluctant to pursue enforcement actions.

In response, FRA began developing new inspection and enforcement practices; however, the Inspector General, IG, recently released a report on FRA's safety program that concluded that FRA's inspection and enforcement of federal railroad safety standards were not effective and did not ensure that railroads complied with safety standards. The administrator responded to the IG's concerns by noting that the audit preceded implementation of the FRA's safety assurance and compliance program, and thus, the report was not relevant to the way FRA currently does business.

However, based on the older GAO reports and the more recent IG audit, it appears that very little or nothing has changed at FRA. Ms. Molitoris, how can you assure Congress that your regulatory agency is not continuing to go soft on safety violators even in those cases where you have vigorous enforcement powers?

Ms. Molitoris. Mr. Wolf, I think if you read the cover letter of the IG, you will note that she says that in fact our program has fundamentally changed, and that they will be coming back to see the results of that program because their review did predate the implementation and maturation of that change.

One of the things we talked about in the introductory statement was the chart that is on the wall or right here. The fact is, when we arrived at FRA, we looked at statistics and we saw a basic flattening of safety statistics.

In other words, they had reached a certain plateau, and for several years starting about 1986, there hadn't been a movement to--the safety statistics hadn't significantly moved. What we

did in the first year, year and a half, is to meet in ten roundtables with all our constituents and to review all of our issues to find out how we could get that line to go down again, how are we going to motivate more safety than had occurred since 1986, and our resultant program, the safety assurance and compliance program. I think you received this report as did all members of Congress. It showed us that we had to go to root causes.

In the 1970's, when we were at the peak of the worst unsafe issues, there were many, many different kinds of accidents. What we know today is that most of the accidents that occur are human factor or track caused. As I mentioned when I was talking to Mr. Olver, the freights have invested \$90 billion over the last six years, for example, and that gives a tremendous boost to the safety of equipment and other elements of the infrastructure.

So as we looked at a very large country, lots of miles, about 300 thousand miles, about 225 thousand employees, and 20 thousand locomotives and 1.1 million cars, we knew that we had to leverage our limited resources.

We have about 476 field inspectors and about 89 people in headquarters. We designed a program that focuses on root causes and railroad system-wide answers instead of only using the traditional one inspection at a time approach. We have been very gratified that the statistics in the past two years have really begun to bear fruit.

I should also mention that I think we do a better job now because we have more people as safety partners. For example, labor is now at the table in the beginning of the process instead of the end of the process. Nobody knows better what happens out on the lines than they do, because they risk their lives every day.

Management is at the table. In fact, this coming Monday, we will be having our Railroad Safety Advisory Committee where some 50 people sit around a table, all of them constituents, to work on common-sense solutions to safety problems. There is a lot of ownership, and it results in rules that work well.

I think the results show that it is working. I think the report, to the extent that you can review it, gives you a very plain-spoken review of how the process is working, and I am encouraged that both labor and management find this process an improvement over past years.

ig report on inspectors

Mr. Wolf. In the report, the IG noted that the FRA inspectors did not make follow-up inspections when a higher than average number of deficiencies existed. What is the FRA's follow-up visit policy, and what is the average number of deficiencies that they find?

Ms. Molitoris. Of course, it depends on what they are looking at, which railroad. We have a lot of railroads in this country, about five majors, and over 550 regional railroads and smaller railroads.

There is a wide range of investment that railroads have made and a wide range of more or less safety. So what we are doing now is looking at the biggest risks and finding the areas

that need to be fixed first.

The safety assurance and compliance program involves sitting down at the table with a railroad. There is a list in your book of all the railroads that have been involved in this process with labor and management and FRA at the table.

We give them our profile of their railroad, which is the result of all the information in our database about them. Labor lays their safety concerns on the table. There is a consensus around what the priority safety issues are, so that in fact, instead of just having individual inspections, if you find a violation, fix that.

We talk about things that are fixed across an entire railroad, so that in fact, we are leveraging our limited resources to get a bigger safety buck. That is why those increases have been so significant.

Mr. Wolf. Do you have a list of railroads that you are particularly targeting?

Ms. Molitoris. We are working with all the railroads, but if you look at page 41 in your report, you will find the list of the railroads we have already met with. I think there are 36, the major railroads, the biggest ones. Now, we are focusing, continuing the process this year, and bringing into the process medium-sized railroads.

It is a systems approach to safety answers.

Mr. Wolf. Ms. Molitoris, I disagree with your statement that the IG audit was not relevant to the way FRA currently does business. Many aspects of this report do remain relevant because in order for SACP to be effective in increasing railroad safety, regular inspections, to assure that railroads are complying with existing safety standards, still remain a critical source of information. Please explain what the SACP has done to increase the effectiveness of FRA's safety inspections and enforcement.

[The information follows:]

[Pages 221 - 222--The official Committee record contains additional material here.]

safety violations

Mr. Wolf. Also, the report noted that FRA did not recommend civil penalties to the maximum extent allowable for serious safety violations. For the record, please provide a table highlighting the number of serious safety violations found, recommended civil penalties, and percent of these penalties that are at the maximum level. This table should show data for the past five years.

[The information follows:]

[Pages 224 - 225--The official Committee record contains additional material here.]

safety inspections

Mr. Wolf. During the 74 of 75 inspections, the IG staff noted that inspectors did not review the railroads' inspection records prior to commencing, during, or subsequent to their

inspections, even when violations and serious safety defects were identified by the inspectors. Your inspectors did not review company records to determine the quality of the rail safety inspectors hired by the railroads, even though this group is the ``first line of defense'' in railroad safety, and there is a federal regulation requiring all such inspectors to have appropriate training and credentials. Why wasn't FRA engaging in these inspections? Do you have the time to do so?

[The information follows:]

FRA's Safety Assurance and Compliance Program (SACP) process incorporates procedures for the comprehensive, systematic review of inspection records and other relevant data. Furthermore, FRA does not believe that safety would be enhanced by requiring its inspectors to review railroad inspection records in connection with every FRA inspection.

FRA inspected more than a million railroad records during the period of the IG audit. Recognizing the inherent difficulties in ensuring sufficient records inspection under the site specific approach, FRA made certain the SACP incorporated a thorough review of railroad records. Under SACP, FRA may include comprehensive reviews of railroad records along with accident and injury data, and on-the-ground monitoring, as part of the inspection process.

FRA does not believe it would be productive to review the records of designation of railroad inspection personnel unless there is some reason to question their qualifications; FRA will re-emphasize the need to do so in such situations.

record review actions

Mr. Wolf. What actions has FRA undertaken to assure that these records are now reviewed?

[The information follows:]

FRA reviews the records of designated railroad inspection personnel when there is some reason to question their qualifications. When FRA finds noncompliance, it is not often the result of a railroad inspector's lack of knowledge. Where a lack of qualifications is apparent, FRA acts to correct it, often by participating with rail management and labor in the training or re-training of railroad employees on regulatory compliance.

The SACP is designed to ensure that FRA exercises its safety authority in a common sense way that focuses on results. SACP provides for a comprehensive review of the inspection records and safety would not be enhanced by requiring inspectors to review railroad inspection records with every FRA inspection.

FRA INSPECTOR PROCEDURES

Mr. Wolf. Finally, the report noted that FRA inspectors and their managers did not comply with FRA policies and procedures but instead left inspection and enforcement decisions to the discretion of the individual inspectors. What policies has FRA implemented to assure consistent work among the inspectors and

to assure that every inspector is following FRA's policies and procedures? How is the agency monitoring the success of these changes?

[The information follows:]

[Pages 227 - 228--The official Committee record contains additional material here.]

Mr. Wolf. Mr. Sabo.

Mr. Sabo. I will yield to Mr. Olver.

HIGH-SPEED RAIL IN PROVIDENCE

Mr. Olver. Thank you, Mr. Chairman. I wanted to clean up just a couple of things here from previous. I was waiting impatiently for a turn here, and I thank my ranking member for allowing me to go first so that I can get to another meeting which I will be even later for, but so be it.

Recognizing that--going to something that the chairman had said to you, Ms. Molitoris, recognizing that the systems are very different, and as I agree, this is like an onion, and you really have to consider the whole transportation system, not any one part, but if we had data that looked at each piece, then you can begin to integrate the whole.

I think--I would like also in that process some comparisons of, and maybe it is Mr. Downs who would have this better, because it is really passenger rail comparison also of what the speed of trains is in these systems. Again, those are somewhat different by how many stops and probably the density of the population areas through which people are going, but I would like to see something on the speeds that are achieved in these major transportation systems, because that might be a better indicator of how well we are doing comparatively rather than just an investment level, which does, as the chairman quite appropriately pointed out, not take into account for us or properly by itself take into account how much of our traffic is air travel because of the much longer distances involved.

[Page 230--The official Committee record contains additional material here.]

Mr. Olver. Mr. Downs, when you were talking about high-speed rail in the Northeast Corridor, I was paying attention, but for a moment, I sort of drifted, and then I heard you say something about the high-speed rail stopping in Providence, and I nearly had a coronary, I think.

Now, please, would you explain to me what you meant by that?

Mr. Downs. Do you mean the stops on the high-speed rail? We have four designated stops on high-speed rail between Boston and New York, Boston-South Station, Providence, New Haven, New York.

Mr. Olver. Oh. It was in the context of what Southwest was doing in using Providence as a hub, and people who had to come to Providence and so forth. I missed the connection there.

This high-speed rail is not for some period of time going to stop, end at Providence.

Mr. Downs. No, no.

Mr. Olver. Is there some impediment to getting into Boston? Is it planned to get all the way into Boston?

Mr. Downs. No. As a matter of fact, we are finishing the electrification of the line between New Haven and South Station in Boston. We should be finished with that mid-year next year, the first time in 80 years or 60 years that that will be electrified.

The assumption that I made about Providence is the business opportunity with Southwest Airlines in that the majority of their traffic is not--the demand is not for Providence. The majority of their demand is the south of Boston traffic, Route 128, et cetera, and that we have a logical connection for people who fly into Providence but still need to get to Boston.

Right now, they rent a car or take a bus or take a limousine. Rail service can be a lot faster than any of that, and can deliver people to downtown Boston. We think it is a good future business.

It is not intended as a high-speed rail. We need to have that be top-dollar and direct service, and the service that we would stop in Providence would continue on to Boston, stopping both ways, Providence into New York, and Providence into Boston, and it would be a direct feed, we hope, off of airlines serving Providence, joint ticketing on lower speed trains.

If I could, one quick comparison about speeds. You had raised it earlier. Our best speed running on long-distance trains is 100 miles, now 90 miles an hour, along one of our western routes. We run as slow as 20 miles an hour on some of our long distance trains. On the Corridor, we run at 125 miles an hour on Metroliner service and Northeast direct.

I believe the land speed record for a steel wheel passenger train is 352 miles an hour with the French TGV on the Atlantique line north of Paris.

Washington to Boston Electrification Project

Mr. Olver. Will you be able to achieve 125 miles an hour from Washington to Boston when this electrification is completed?

Mr. Downs. We are buying trains that run at 150 miles an hour. We will be able to run at 150 miles an hour on portions of the line between New York and Boston because we are completely rebuilding it, electrification, signals, safety improvements, everything.

South of New York, until we make some significant improvements on electric traction and the cantenary we will still be stuck at 125 because of the age of the infrastructure, but the trains themselves have the full capacity of running at 150 miles an hour plus.

In France, they regularly run at 200. This technology that we are buying runs regularly at 200 miles an hour.

Mr. Olver. But we are still talking about conventional high-speed rail.

Mr. Downs. Yes.

Mr. Olver. So our speeds are towards the lower end of the achievable high speeds with conventional high-speed rail.

Mr. Downs. Yes.

LABOR COSTS

Mr. Olver. In your operating problems, what part does labor cost play here? I am sort of curious what the comparisons are.

We are talking about a national rail passenger system where we have decided we are going to reduce our operating subsidy to this, and that puts enormous pressures on.

Now, there are a number of state systems. The corresponding state systems, I suppose, are supported in states would be like SEPTA or the New York metropolitan area or MBTA in Boston and so forth, and the Chicago systems which are really state systems that they have decided for their economies that they must subsidize, and they are subsidizing them rather substantially, so there is at least some comparability conceptually here.

What are the labor costs, comparative labor costs, for similar jobs in systems like those compared with what you have to deal with--which you are dealing with in Amtrak?

Mr. Downs. We have 13 unions and 26 collective bargaining agreements. Our wage comparability between a freight railroad is that we are generally under freight railroad wages for comparable positions like engineers, conductors, carmen and mechanical.

We had a very long and difficult set of negotiations in the late 1980s, early 1990s. We went four years without a contract, and we got significant rule changes from the unions by agreement. We got changes in operations that made our labor costs, I think, in a lot of areas less than a freight railroad.

Our major cost on labor is excess railroad retirement. It is \$150,000,000 a year for us. It turns out that it is an additional cost that we pay on the labor side of about \$6,000 per employee per year. That cost goes to the railroad retirement fund to pay for retired freight railroad employees. There are currently just about 800,000 retired railroad employees in the United States, and there are 180,000 working railroad employees.

The Railroad Retirement Fund itself stands separate from Social Security, so it has to make its own chargebacks. That wage cost is sometimes borne by commuters, sometimes not, depending on when these commuter agencies were formed and how they assumed their operations.

Some railroads are struggling to get out from the excess railroad retirement charges, because they believe those costs belong to the freight railroads that incurred those costs.

Mr. Olver. I don't know how those would relate to the specific systems, but I was looking for more on the operating personnel, the current personnel, and wages.

I think I have seen some data that shows that your wages are in fact under, for the most part, what they are in these commuter rail, fixed rail, systems that states run for economies of their own particular areas, maybe not under all of them but under most of them or the biggest ones. Is that true?

Mr. Downs. I have some data that shows one craft, railcar mechanic, hourly rates of pay, and it shows that Amtrak is tenth after Chicago CTA, New York, Boston MBTA, BART, Washington Metro, Baltimore, Atlanta, New York, New Jersey, and

then finally Amtrak.

Mr. Olver. Would that be typical of the operating groups where they are fairly far down the list so that--I mean, I am looking for whether your problems are partly due to a pay structure, but that doesn't seem to be the case.

My guess is that most of these state systems running commuter rail or what in a large metropolitan area which are obviously key to the economy of their areas are actually running at much higher subsidies than we are providing in the case of the national rail system.

Mr. Downs. I couldn't tell you exactly across all crafts, but my sense is that we are towards the bottom in overall average representative employee pay against a commuter agency.

LABOR MEDIATION PROCESS

Mr. Olver. Let me ask one other thing. One of your groups, I think it is the Brotherhood of Maintenance of Way, which has probably ten percent of all the Brotherhood of Maintenance of Way Employees in the country are Amtrak employees, and everybody but the Amtrak employees are working under contract.

You have had a couple years in your case of no contract, and is it also true there that you are operating under a mediation process?

Mr. Downs. Yes.

Mr. Olver. What is the impediment here in these negotiations? How would you characterize them, and is the mediation process something that is working or is it stopping our getting to a contract there where one should be relieved of the mediation process and go on to hopefully a more open and hopefully fast-tracked kind of process in that group?

Mr. Downs. The difference with the Brotherhood of Maintenance of Way Employees is cash, it is money. They want the freight railroad agreement. We have said over five years that the freight railroad agreement for all of our employees would cost us about \$220,000,000. That is \$220,000,000 more than we have. We have said that we would like to be able to pay freight railroad compensation levels.

The freight railroad industry made about \$4,000,000,000 profit last year. We didn't; we lost money. We have a responsibility, I believe, about the long-term survival of the company to cut the best deals that we can with rail labor that ensures the continuity of their jobs as well as decent pay and working conditions.

I believe that the Rail Labor Act is set up to draw out longer term contract negotiations. It is just structured that way, that the process is focused on long, drawn-out negotiations.

We asked for mediation. I believe the Brotherhood of Maintenance of Way is probably getting ready to make a decision about asking for a release from mediation so that they can exercise what is euphemistically known as self-help in this process, which is a job action that would probably trigger the requirement for a presidential emergency board, and then finally, if that was unsuccessful, action by the Congress.

Mr. Olver. That is enormous complexity, but it would appear that what you have described is a situation where it would add

greatly to your bottom line which you are already in adverse negotiations with the people on this side of the table on your bottom line, in any case, at that level.

On the other hand, you have also told me, and I guess the BMW people would also be somewhere down that list of pay levels. We were talking about a pay level list which probably doesn't include the levels that you get to in the private freight rail system, but in the passenger rail systems, they are on the low side, I would infer from what you previously said. Would that be basically correct?

Mr. Downs. I believe Brotherhood of Maintenance of Way Employees of commuter railroads are paid at a higher wage rate than they are----

Mr. Olver. In yours.

Mr. Downs [continuing]. At Amtrak, and I know that they are painfully aware of the disparity in pay between current levels of pay on Amtrak for Brotherhood of Maintenance of Way Employees and current pay levels on freight railroads for the exact same kind of work, and the difficulty they have in convincing their Amtrak members that there is any justification for a differential in pay between freight and Amtrak, a very difficult dilemma.

Mr. Olver. As America's rail system--passenger rail system, it seems slightly ironic that they should be below what other passenger systems are in those places, though the others are up to the largess of the particular states and their economic circumstances.

I don't think--I don't know that I can hold for a particular position in relation to the freight rail system. That is a somewhat different kettle of fish, I would guess.

Thank you very much. I am done, and I appreciate both of you indulging me and allowing me to go on to my other meeting.

operating Fund Disbursement Schedule

Mr. Wolf. Mr. Sabo.

Mr. Sabo. Let me ask this one. Mr. Downs, let me just get a feel of what happens as you are short of operating funds. You have your revenue, you have our subsidy, and it doesn't meet.

Do we pay the subsidy the first of the year?

Mr. Downs. You pay it on a quarterly installment basis.

Mr. Sabo. Quarterly installment.

Mr. Downs. That costs us money. We have asked for a clarification. The administration did not ask for that. We have asked that we be able to receive our subsidy payment up front, something about a complex issue around how the funding is scored by fiscal year.

In effect, we borrow money to anticipate some federal receipts. Having it all up front would at least get us six months into the year before we had any cash flow problems.

Mr. Sabo. But you would end up with cash flow problems through the year.

Mr. Downs. Our first payment is half of the subsidy, and the second is 25 percent, and 25 percent.

Borrowing Authority

Mr. Sabo. Okay, but what has happened, let us say in fiscal year that ended last September 30. During that fiscal year, you got your revenue, you got your operating subsidy. You were short.

Mr. Downs. We borrowed cash at the end of the year, and as soon as we receive our federal payment, we pay back that cash borrowing.

Mr. Sabo. Loan.

Mr. Downs. That loan which is a very short-term loan. It is only for cash flow purposes. It is not long-term debt.

Mr. Sabo. Yes, but it is a cash-flow debt. So what you have been doing is escalating the amount that you are borrowing each year?

Mr. Downs. Actually, we decreased it. The first year that I was here, we borrowed \$68,000,000 at the end of the year to just make payroll. We repaid it the next year and we balanced our budget after we took that hit by significantly downsizing the corporation.

That is the worst cash position that we have been in, I think, in the history of the corporation. We recovered from that in a 12-month period. I hate to go back into negative cash end right now, but at the end of last year, as I said, we were \$8,500,000 in the red on cash end. That is what we borrowed from our banks.

We repaid it on the second of October, I believe, with the first payment that we received on subsidy.

Mr. Sabo. And what is your projection for this current year then?

Mr. Downs. \$70,000,000 to \$120,000,000 negative cash.

Mr. Sabo. For this year?

Mr. Downs. For this year.

Mr. Sabo. Which you will then borrow?

Mr. Downs. We have currently borrowed because of some cash-flow problems already, and I believe that we borrowed--Al.

Mr. Altschul. We have borrowed as of today \$40,000,000. We expect to pay down all of that through cash receipts and through the next 25 percent of the appropriation that we are getting on April 1, and then we will be borrowing relative amounts as we go through the remainder of fiscal year 1997.

As Tom mentioned, we expect to end the year based on our current projections somewhere between \$70,000,000 and \$75,000,000, up to a little over \$100,000,000. That will be repaid on October 1.

Rail accidents

Mr. Wolf. Last year at this time, we were discussing a rash of railroad accidents including Fox River Grove MARC and other accidents. However, since last April, it appears that there has been a significant decline in rail accidents. Do you believe we have seen an improvement in rail safety throughout the U.S. in the past year and can you comment a little bit about that?

Ms. Molitoris. I certainly can, Mr. Wolf. Again, I point to the chart because that is the most obvious indicator that when you can increase 39.3 percent in on-the-job casualties, when the train accident rate increase improves six percent, and fatalities by 20 percent, it certainly has a big impact across

the country.

I think that that rash of accidents last year was such a trauma to all of us and to the industry as a whole that we, as you know, instituted two emergency orders which are sort of one of our strongest tools. We worked directly with all the chief operating officers. We really began to attack the culture problem.

If you recall last year, we talked about that somewhat, and people at first said what is the culture thing. The culture is safety is always first; is it what drives everybody first and foremost before profit, before getting a train out.

Safety has to be first, and I think it is very interesting to note that over this year, the understanding by people throughout the industry is that the safety culture is an issue, and that we all have to work at it.

In fact, Mr. Hall, who is chairman of NTSB, is holding a seminar forum just on the culture issue in just a few weeks.

I think the whole safety assurance and compliance program where we are working interpersonally, not impersonally, on the issues of safety. We recognize that not all safety issues can be solved by money alone.

There is technology that can be improved, there is infrastructure that can be improved, but the human decision-making, the focus, the working together for everybody's safety, that is a key ingredient if we are going to reach that zero target that we have.

Safety Board Recommendations

Mr. Wolf. Are there any safety board recommendations that have been made that you have not implemented?

Ms. Molitoris. I think we are at the lowest in history. I will submit that for the record.

We have increased our responses over the first four years.
[The information follows:]

The large majority of NTSB recommendations have been closed based on acceptable (implemented) action. During the past three calendar years only three recommendations have been closed based on ``unacceptable'' action. This means FRA did not implement the NTSB recommendation. Of the three, FRA found two of the recommendations, both related to track inspection procedures, were unnecessary because actions were underway that would meet the intent of the NTSB recommendations. Research is being conducted by the railroad industry, and track safety standards are being revised. The other recommendation is still an active project, however, NTSB ``closed'' the action due to time limits. FRA considers this action important but could not complete implementation within NTSB's time frame.

Mr. Wolf. But we are a little slow. Where are you now? What ones are available? What recommendations have been made that you haven't implemented from the safety board?

Ms. Molitoris. On all of the accidents last year, we have responded to their recommendations. I have a list here which I will submit, but I will review it for you. There are 41 recommendations from NTSB that are classified as being open.

There are in five major subject groups. There are five in the area of track; 24 in the area of motive power and equipment; five in signals, communications, and grade crossings; two in operating practices; and five in hazardous materials.

A number of those have to do with research that we are doing in a particular area that we are working together on. Take, for example, in the signal area. I think the board has testified that for the first time in the last three years, they have seen movement on advanced train control systems, which we reported to Congress on, and I think that has been on their most wanted list for over 20 years.

So I feel that our relationship with NTSB is very strong. We have them as a partner. I have a note here, 38 of 41 of these recommendations I just mentioned to you are covered in rule-making proceedings that are active and ongoing right now.

Mr. Wolf. If you could bring the committee up to date on progress and the three that are not and when you expect to be dealing with them?

Ms. Molitoris. Certainly.

[The information follows:]

[Pages 238 - 241--The official Committee record contains additional material here.]

Commercial Vehicle Grade Crossing Accidents

Mr. Wolf. Thank you.

Mr. Downs. Mr. Chairman, if I could, I know that it is probably not part of the question you asked, but I would like to put it on the table anyway since it is a safety concern that we share.

We have not seen any significant decline in grade crossing accidents with commercial vehicles and Amtrak trains.

Mr. Wolf. We are going to get to that. Go ahead.

Mr. Downs. I am sorry.

Mr. Wolf. No, go ahead.

Mr. Downs. To the point, we had a grade crossing accident this morning in Poughkeepsie, New York, with a commercial vehicle, a tractor trailer fouled on the tracks.

It is not unusual for states who all have now by federal law commercial drivers' license requirements to have penalties for commercial drivers who violate grade crossing of \$20, \$25 as a fine. In that environment, they can kill hundreds of passengers on Amtrak trains.

Our last grade crossing accident was as dumb as a tractor trailer operator with a low-boy carrier trying to make a U-turn across a grade crossing and got stuck without enough sense to get out of the area and then go down the track and set emergency flares and emergency communication.

Those accidents cost us millions of dollars in damage to equipment, millions of dollars worth of medical bills for both employees and passengers.

It is unconscionable that we let this kind of violation with commercial vehicles. When a family vehicle, a car, a pickup violates a grade crossing and one of our trains, it is very unfortunate, because it usually means that the person driving the car is killed. There is no way you can win a battle

with one of our trains.

Our trains travel faster than freight trains, so people misjudge the distance. In those circumstances, they are jeopardizing the lives of all of the passengers on board. Commercial vehicle drivers, who willingly or through ignorance or a lackadaisical sense about what they are putting at risk, violate grade crossings are putting at risk hundreds of lives every time they violate a grade crossing or get stuck on one without understanding the ground clearances requirements, the height requirements, their own capabilities of getting across it.

We have had engineers killed. We have had passengers killed as a result of grade crossing accidents like this.

Florida seems to have a particular problem about it. I have written the governor twice about grade crossing accidents in Florida. I have written to governors all over the country about trying to get better enforcement for commercial drivers' license violations and not \$20 fines.

If a locomotive engineer violates an operating rule, he can be off for 30 days. If he violates it twice, he can lose his job and never operate on another railroad again. A fine of \$20, \$25, or \$30 for commercial drivers who are professionals and who continue to violate grade crossings jeopardizing lives is seemingly an unacceptable safety hazard in the United States.

Mr. Wolf. Can FRA be of any assistance to you?

Ms. Molitoris. This is in fact one of our top priorities.

Mr. Wolf. Have you written to all the governors?

Ms. Molitoris. Yes, we have. We followed up on your suggestion in that regard. We have received some very good responses, and as I mentioned in my opening statement, Secretary Pena at the time, in 1994, made grade crossing safety a transportation priority.

We have 55 initiatives and several of those are focused on this problem of low-boys and trucks at crossings because it is unconscionable.

Commercial Driver Requirements

Mr. Wolf. Have any or many states increased the fine as Mr. Downs was talking about?

Ms. Molitoris. One very specific example is the state of Illinois where they have increased the fine to \$500. We certainly are continuing to pursue the issue of the commercial drivers' license, because we think not only is education of truck drivers in awareness of what they are supposed to do crucially important, but there has to be some leverage.

If in fact there is this danger that someone would put passengers and themselves into, there ought to be a penalty, and we continue to pursue that issue.

There is no legislation yet at this time.

Mr. Wolf. Is there something the committee could do?

Mr. Downs. I understand the commercial drivers' license provision falls under the House Transportation and Infrastructure Committee. My suggestion to the administration and to everybody else was that there be a serious look at the context for commercial drivers' license requirements and liabilities on grade crossing violations enacted into law as

part of the ISTEA reauthorization.

Ms. Molitoris. We are working closely with FHWA. In fact, they met again just last week to come up with some proposals for newly installed Secretary Slater on this particular issue.

Railroad Hours of Service

Mr. Wolf. You ought to be doing it soon, because that bill will be moving relatively fast, if that is the vehicle you are going to take advantage of.

The Federal Highway Administration is currently revising the hours of service truck drivers can operate. Last year, Ms. Molitoris, you testified that railroad hours of service was a very important issue and the administration was pursuing corrective actions when noncovered activities commingle with covered ones, trains, dispatching, signal service, et cetera.

What changes has FRA implemented during the past year to correct these problems?

Ms. Molitoris. Mr. Chairman, as you know, we do not have authority in the issue of hours of service. What we have done is to work with railroads and labor to discuss ways of enhancing fatigue-related issues.

We are encouraged by the steps that railroads are taking, self-initiated programs to explore ways to enhance vitality and limit fatigue.

Burlington Northern-Santa Fe is one I could raise as a railroad that has instituted programs that labor and management are working together with us on. They seem to be very useful.

We held a roundtable on fatigue with labor and management with experts around the country about the different data that has come to light as a result of research about what really can make changes. There are things called ``power napping'' that are now going on in a variety of railroads which give the authority to employees.

Mr. Wolf. ``Power napping''?

Ms. Molitoris. Yes. ``Power napping'' sounds like a humorous term, but it is the authority for employees, when in a siding, for example, if they are going to be in a siding for a certain amount of time that they are authorized to take a 20-minute nap. This short time has shown to be very beneficial to your alertness and your ability to perform at peak performance.

That is only one of the initiatives. There are different ways in terms of crew calling and other things that are being tried and we think it is a very, very important issue. Fatigue and the quality of life for high performance for employees is crucially important.

Action Plan on Grade Crossings

Mr. Wolf. Winston Churchill would take a 20-minute nap and it would revive him. I understand Lyndon Johnson used to do the same thing.

About 90 percent of railroad-related deaths occur at highway grade crossings. The department has implemented an action plan that seeks a 50-percent reduction in railroad crossing accident fatalities by the year 2004.

Last year, you testified that between 1993 and 1995, there

had been a 10.7 percent reduction. What has occurred this year?

Ms. Molitoris. We are thrilled to be able to say it is a 20-percent reduction. In fact, that is an average, Mr. Chairman, and in some states, Ohio for example, it is a 56-percent increase.

Mr. Wolf. Why is that? I know Ohio is a wonderful state, but why is that?

Ms. Molitoris. There are a number of reasons. Also, Colorado and in many other states, there is a very strong coalition.

Mr. Wolf. Is that the highest rate, 56 percent?

Ms. Molitoris. I would have to check Colorado. At one point during the year, I think somewhere around August, in terms of fatalities, Colorado's improvement was 77 percent.

Mr. Fine. I don't know about the other states, but with Mr. Downs here, Amtrak improved over 50 percent. They went from 63 to 30 fatalities last year.

Ms. Molitoris. In fact, Amtrak's overall safety record is laudable, but what we have learned, Mr. Chairman, first of all, different states have different challenges. Like Texas, Ohio, Illinois, Michigan have huge numbers of crossings, so it is a great big challenge for them.

In some states, there is a tremendous coalition that is so committed to accomplishing it, Operation Lifesaver, the Department of Transportation, public utilities, a big awareness program. There is no silver bullet. It is all of them together working with us.

We had a national awareness campaign called ``Always Expect a Train'' that got almost \$4 million of donated time. The AAR and states have a highway or die-way program which is even more graphic than ours. Ours was for a more general audience, trying to get to these chronic violators, because 50 percent of the people who die at these things die at crossings that are protected. It is just such a tragic waste of life.

We are very, very pleased that we got 20 percent. If we keep growing that number and continue that kind of safety increase, we are going to be able to reach our goal.

Rail Crossing Improvements

Mr. Wolf. Last year, FRA testified that there were 3,411 rail crossings that were similar to the Fox River Grove accident site. Has FRA been working with the states and affected jurisdictions to reduce these types of crossings?

For the record, please highlight what specific actions your administration has undertaken with regard to these type of crossings like Fox River Grove.

Ms. Molitoris. I will certainly do that for the record in detail, but let me just mention, it isn't even just FRA. We had a coalition, a task force appointed by the Secretary with four operating administrations, Federal Highway, Federal Transit, the National Highway Traffic Safety Administration and ourselves, because what we found in Fox River Grove specifically is that it wasn't just one thing. It was how a variety of state organizations worked together, communicated or didn't communicate, instituted change and didn't coordinate with another. So we understood that it couldn't be just FRA. We had to work together, and we are working in states specifically. We

are working with DOTs, governors' offices.

At the AASHTO conference, I meet individually with the secretaries, directors, and commissioners, not just on this subject. Certainly this is a very high priority for us, and I think that 20-percent increase helps to understand we are going in the right direction.

[The information follows:]

[Pages 246 - 247--The official Committee record contains additional material here.]

Private Crossings

Mr. Wolf. What about private crossings?

Ms. Molitoris. Private crossings are a huge problem, Mr. Chairman. We continue to have our grade crossing managers. If you recall from last year, we have eight grade crossing managers, one in each region now, focusing only on this issue. Their job is to help states, local communities as I mentioned to Mr. Tiahrt, some problems like this as well as safety problems.

We really are working to get crossings closed. Sometimes, it is very difficult, especially in private crossing areas, but deaths occur there and we know it is a huge component of the problem and we have to keep fighting it.

Mr. Wolf. Mr. Downs, if you could for the record tell us what you are doing with regard to grade crossings to prevent accidents. You have already covered it, but I would like more detail.

Mr. Downs. I would be glad to.

[The information follows:]

As you know, I believe one of the greatest threats to the safety of our passengers and crews is the reckless driver who ignores an approaching train or disobeys the grade crossing warning signals and drives in front of our trains. Given the destructive force of a car being hit by a 250,000 pound locomotive traveling 80 mph hitting, one would think that it would be a rare occurrence for someone to try and beat a train. Yet, not a week goes by without at least one grade crossing accident. Every day our crews watch cars drive around closed gates trying to beat our trains. Our nation has nearly 290,000 grade crossings and each year nearly 600 people lose their lives in accidents involving trains.

What is most unconscionable is commercial drivers--professionals--who try to beat our trains at grade crossings. Truck drivers who ignore grade crossing warnings or who use bad judgment when moving over grade crossings are the greatest risk to our trains. These accidents not only risk the lives of our crews and passengers, but cause millions of dollars in damaged equipment and medical bills. What is most galling is that many states do little to sanction this type of reckless driving.

Earlier this year, one of our New York to Miami trains struck a tractor trailer which was stuck on the tracks near Jacksonville. The impact derailed the locomotives and several cars. Thirteen people went to the hospital for treatment of injuries. The truck driver was not injured because, after

getting stuck, he abandoned his truck. If he is cited, he will be fined a mandatory \$100, because in Florida that is the standard sanction. Over the last few years, we have had a number of these type of accidents in Florida, which caused fatalities to our crews and passengers. In the past, our requests to Florida and other states have met with little success. I am attaching the recent letter I sent to Governor Chiles and his response to me regarding the latest incident.

Despite these difficulties, Amtrak does work closely with the Federal Railroad Administration, Operation Lifesaver, and other trial safety organizations. Education about the dangers of recklessly driving through activated grade crossings has been a potent weapon in reducing the number of accidents and fatalities. In addition, as part of our joint inspection efforts with the host railroads, we work with them to help close particularly dangerous grade crossings.

With regard to track that Amtrak owns, we have had an aggressive program to close grade crossings. On the Detroit-Chicago corridor, Amtrak has reduced the number of grade crossings from 299 to less than 250 in the past four years. This summer we will begin an aggressive campaign aimed at reducing the number of grade crossings by another 10 percent. This will involve both public and private crossings. For instance, during the last two years, working with the town of Dowagiac, Michigan, we closed three public grade crossings through the downtown area. This allowed for an increase of speeds to 100 mph on this stretch of track.

On the Northeast Corridor, as part of our High Speed Rail program, we are working to close or significantly modify the remaining 15 crossings that currently exist between New Haven and Boston. Thirteen of these crossings, one a pedestrian crossing, are in Connecticut and will receive modern grade crossing protection devices. There is support to close two of these crossings and Amtrak is working to identify funding for the creation of the grade separations. The other two crossings, one in Rhode Island and the other in Massachusetts, are scheduled for elimination.

[Pages 250 - 253--The official Committee record contains additional material here.]

Positive Train Separation

Mr. Wolf. Is positive train separation available commercially yet or is it still being pilot tested?

[The information follows:]

At least two major manufacturers have expressed a willingness to take orders for positive train separation systems, even though they have not been fully developed and tested. Production and validation of the safety-critical software needed to operate these systems remains an area of development activity, as well as the integration of the train control system with the computerized dispatching systems being employed by several of the large freight railroads. Many of the hardware component parts which are needed for such systems are commercially available, such as digital radios originally

developed under the Association of American Railroads' Advanced Train Control System (ATCS) program.

POSITIVE TRAIN SEPARATION TECHNOLOGY

Mr. Wolf. FRA had contracted with the Volpe Transportation Center to develop a corridor risk model that would help identify where positive train separation technology would be beneficial. Has this study been completed? If so, which corridors would benefit from PTS technology?

[The information follows:]

This project is in its final phases under the management of the Volpe Center. A complex geographic information system has been constructed and a variety of data bases have been assembled to support the analysis. Preliminary data analysis is underway, focusing on historical accident patterns. Preliminary modelling has been attempted, and a mature strategy for model development has been identified. Issues regarding geolocation of accident sites using FRA accident/incident data have also been largely resolved. Initial results of the analytical effort are expected by June 1997. The Corridor Risk Analytical Model (CRAM) will assist FRA's analysis of rail corridors by their specific characteristics, (i.e., types of operations, density, hazardous materials, proximity to population areas, etc.) for the potential benefit of positive train control (PTC) systems. FRA is also conducting a ``business case'' review of positive train control using illustrative corridors with a variety of characteristics. Integration of the safety and business analysis for illustrative corridors is also due this summer.

GRADE CROSSING EFFORTS TO REDUCE ACCIDENTS

Mr. Wolf. Last year, Ms. Molitoris, you testified that FRA was targeting 16 states with the most grade crossing accidents. What notable successes have been achieved from this intensive effort? Has there been a statistically significant reduction in grade crossing accidents in these 16 states based on FRA's efforts?

[The information follows:]

[Pages 255 - 262--The official Committee record contains additional material here.]

GRADE CROSSING REDUCTIONS

Mr. Wolf. Ms. Molitoris, what is the status of FRA's efforts to close redundant grade crossings and reduce the number of grade crossings by the national target of 20 percent?

[The information follows:]

The ``frontline'' effort for consolidating crossings is more often accomplished by State and railroad officials, though the FRA has had some success as well. FRA Regional Managers for Crossing and Trespass Programs work with community and rail officials, actively promoting programs and reviews of crossings in a community or on rail corridors to assess traffic patterns

and the need(s) for each crossing. By looking at a locale's total transportation needs, the potential for crossing consolidation becomes more apparent and more defensible. The Managers often assist in the presentation of arguments and positions during local and State meetings.

Currently, U.S. Code, Title 23, Section 104 requires the Secretary to set aside \$5 million of the surface transportation program for use in the elimination of hazards of railway-highway crossings in not to exceed five railway corridors selected by the Secretary as high-speed rail corridors. These requirements were formerly mandated under ISTEA's Section 1010.

NEXTEA retains 100 percent funding eligibility for projects which close or eliminate one or more crossings, and retain the \$7,500 per crossing bonus program eligibility for communities that close crossings when the bonus is matched by the railroad.

Since the goal to close crossings was first pronounced in 1991, the number of public and private crossings has been reduced 24,163 (8.25 percent) to a total of 268,676 crossings.

Mr. Wolf. Mr. Downs, is Amtrak working with the affected areas to install any preventative measures that would reduce or eliminate access to grade crossings?

[The information follows:]

Amtrak is an active nationwide participant in the crossing closure process along with the freight carriers and state highway/rail representatives. In those areas where we own the right of way, we have taken the following action:

Amtrak owns 100 miles of track between Kalamazoo, Michigan, and Porter, Indiana. On this route, there are 101 public crossings--99 have active warning devices and 2 have crossbucks. The state of Michigan has been very aggressive in upgrading highway-rail grade crossings and funded \$1.1 million for a highway-grade crossing elimination project on Amtrak's Kalamazoo-Porter route. The state has also upgraded the lamps on the crossing lights and the signage to make them more visible to motorists. They used high-intensity reflective materials to improve motorist visibility both during the day and at night. Forty-four crossings were upgraded during this project.

Where we do not own the tracks, our role in reducing or eliminating access to grade crossings is not as clearly defined. Also, state laws vary in the level of sanctions imposed on those who recklessly violate grade crossings. For instance, in the state of Florida, I have learned that they have implemented a maximum fine of \$100 for grade crossing violations. This fine is insignificant for a crime that could, in the case of a derailment, cost Amtrak (and potentially the nation's taxpayers) millions of dollars and possible loss of life. Amtrak continues to urge states, such as Florida, to adopt stricter sanctions and penalties, especially for commercial drivers and their companies, when driving recklessly through highway-rail grade crossings.

We continue to assist the railroads, states, and the Federal Railroad Administration in their efforts to close crossings, and take an active role in community outreach. We believe it is in our best interests to be a strong participant

in this process, and have evidenced that belief in these actions:

We have worked with the City of Wallingford, Connecticut, and the state of Connecticut to close one crossing in Wallingford. We are also working with the state of Connecticut to install a demonstration project involving four-quadrant gates at School Street in Mystic, Connecticut.

Since December 15, 1996, Billy Parker, an Amtrak locomotive engineer and Operation Lifesaver spokesperson, has been conducting an intense media campaign in the state of Florida. Stories on grade crossing safety will be featured in the Florida Times Union, the Tampa Tribune, the Orlando Sentinel, and the Miami Herald, as well as many smaller newspapers throughout the state. Also, Amtrak has received recent television coverage, and Billy will be featured in an upcoming story on ``Dateline NBC'' to focus on the problem of grade crossings. This kind of media focus will help in our efforts to educate the public about how to be safe around highway-rail grade crossings.

USER FEES

Mr. Wolf. In the President's budget request, FRA is seeking the reinstatement of the rail safety user fee. It is my understanding that even though railroads have been paying the user fee through fiscal year 1996, now the railroad industry is opposed to the fee because they do not receive any identifiable regulatory benefit from FRA's inspection and enforcement activities. What are your comments about that, Ms. Molitoris?

Ms. Molitoris. Mr. Chairman, the administration believes that to the fullest extent possible, those who benefit from the work of the government should contribute to its cost coverage.

As I mentioned earlier, the budget this year covers the safety work of FRA 100 percent as well as \$2,800,000 of chief counsel which is 69 percent of all the chief counsel's expenses, which is specifically the safety law division. They work very closely with the safety office on all of the enforcement issues.

Mr. Wolf. Mr. Downs, did Amtrak ever pay rail safety fees?

Mr. Downs. We did.

Mr. Wolf. The staff asked, Mr. Downs, do you favor the reinstatement or what is your feeling?

Mr. Downs. I hate mandatory costs. If the administration imposes them on the entire railroad industry, I would guess that we would have to pay them. My budget people tell me we paid about \$1,500,000 a year into that fund.

Mr. Wolf. Are you aware of other modes within the Department that charge user fees for inspection and enforcement activities? If so, which ones are they?

[The information follows:]

The Omnibus Reconciliation Act of 1990 established railroad safety user fees for Fiscal Years 1991 through 1995. The fees were imposed on railroads subject to the Federal Railroad Safety Act of 1970 (FRSA), and were designed to cover the costs of the railroad safety program conducted by the FRA under the FRSA (other than research and development and certain training

activities).

The following is Appendix A from the Final Report to Congress on Transportation User Fees, dated October 1996, details safety program expenditures by transportation agency for Fiscal Year 1995.

[Pages 265 - 268--The official Committee record contains additional material here.]

COMMERCIAL FEASIBILITY DEFINITION

Mr. Wolf. On August 21, the Federal Railroad Administration presented its report on the commercial feasibility of high-speed ground transportation. This report reviewed eight new corridor options, not including the Northeast Corridor and two incremental corridors.

This report concluded that the options analyzed in this report do not meet the private sector's definition of commercial feasibility in that the project pays for itself.

Why do you believe this definition should not be used?

Ms. Molitoris. Mr. Chairman, what we used and what we talked about in the report was that in every area that we studied, there was at least one corridor that we termed commercially viable. That meant that it would cover all its operating costs, somewhat like the high-speed train sets, all of its operating costs and in most cases, a significant portion of its capital once it was instituted, but it could not cover all of its capital costs.

I think what it brings to any region in terms of benefits, mobility for passengers, safety, congestion relief, relief on the highway and other transportation systems is the ability to have clean air. A number of other benefits can be figured in that really make these very strong contenders for transportation investment. Mr. Chairman, the NEXTEA proposal that we have offered really says that states, localities, and regions should have an opportunity to make these decisions because they know best what they need in their regions. If you look at places like California, the northwest, Florida, you see states that have said, we think high-speed rail is very important.

The Fox Overland Express project, the state of Florida has made a commitment of dollars and policy. They have said that over the next 40 years, they will contribute over \$4 billion to a high-speed system, because they think that is best for moving their people, for protecting their land, for responding to their tourist trade which is so very big.

We think in a number of areas throughout the country, it is a very good investment with a very good return on that investment.

Mr. Wolf. We will have some other questions. We are coming close to the end. I have to go to something else, but let me just submit them for the record.

RAIL TRACK UPGRADE

Mr. Wolf. Of the options considered in this report, which ranged from high-speed rail operating at 90 miles-per-hour to

Maglev, the three most viable options appeared to be operating at speeds between 90 and 125 miles-per-hour. Are only incremental changes required to upgrade rail track to operate at these speeds? If so, is it feasible for states to pay for these upgrades?

[The information follows:]

[Pages 270 - 271--The official Committee record contains additional material here.]

TRACK SPEED LIMITS/SEPARATION

Mr. Wolf. At what speed does freight and passenger traffic need to operate on separate track?

[The information follows:]

Amtrak presently operates passenger trains in the Northeast Corridor at 125 mph and plans to increase this speed to 150 mph on right-of-way shared with freight trains. The FRA does not envision mixed passenger and freight operations at speeds higher than 150 mph. The Commercial Feasibility Study assumes that speeds greater than 150 mph would prohibit simultaneous passenger and freight operations.

Mr. Wolf. At what speed can there no longer be highway-rail grade crossings?

[The information follows:]

It is presently FRA's policy that no crossing will be permitted where trains operate at greater than 125 mph. The commercial feasibility study assumes that tracks over which passenger trains operate at speeds greater than 125 mph would need to be completely free of grade crossings.

COMMERCIAL FEASIBILITY STUDY

Mr. Wolf. Of the eight new corridors discussed in the commercial feasibility study, what are the most likely corridors to implement high-speed rail within the next five years? How long will it be before these corridors will be self-sustaining?

[The information follows:]

[Pages 273 - 276--The official Committee record contains additional material here.]

LONG TERM PROJECTIONS

Mr. Wolf. The commercial feasibility study used a 40-year time frame for considering project costs and benefits, which include the continuing investments required over the period to maintain, replace, and expand the infrastructure. Are there significant capital replacement costs associated with infrastructure components whose useful life is greater than 40 years? If so, do the projections include set-asides for those future funding requirements?

[The information follows:]

Long-lived items like concrete ties and rail would ultimately require replacement after the end of the 40-year cycle. The projections do not include set-asides for these because (1) their impact on the analysis would be relatively small (the present value of one dollar spent 40 years from now at 10 percent interest is about two cents) and (2) to fairly assess the period beyond 2040 would also require estimates of revenues, operating expenses, and operating surpluses, which would likely counterbalance the effect of the future continuing investments.

Mr. Wolf. Large projects such as these tend to substantially exceed their original construction cost estimates. The commercial feasibility study includes contingencies for such increases at the rate of 30 percent of the more modest technology options and 41 percent for the new high-speed rail and maglev options. How were these numbers determined? How do they compare with final versus planned costs for recent rail or other public works projects in these corridors?

[The information follows:]

[Pages 278 - 279--The official Committee record contains additional material here.]

HIGH SPEED RAIL CORRIDORS

Mr. Wolf. The report also discusses two incremental options off the Northeast Corridor--extending the Empire Corridor from New York City to Buffalo and linking Washington, D.C. to Richmond and points in North Carolina. I know that New York state has been actively pursuing high-speed rail on the Empire Corridor. Could you please bring the committee up to date on the status of these two proposals?

[The information follows:]

[Pages 281 - 282--The official Committee record contains additional material here.]

NORTHEAST CORRIDOR HIGH SPEED RAIL PROJECT

Mr. Wolf. Both FRA and Amtrak have estimated that \$2,000,000,000 is needed over the next three to five years to recapitalize the southern end of the Northeast Corridor, and \$1,400,000,000 is needed to complete the high-speed rail project in the northern end of the Corridor. This totals to \$3,400,000,000 in the next five years. Mr. Downs and Ms. Molitoris, because you may have differences in opinions, could you both discuss how much of this total you envision will be provided from federal sources?

[The information from FRA follows:]

Phase I of the joint FRA/Amtrak ``Northeast Corridor Transportation Plan'' for the Washington/New York City segment of the Corridor, published in July 1996, identified \$675 million in recapitalization investments that should be

completed in the next five years. The Plan also identified \$1.3 billion in tunnel modernization and either a restoration-in-kind or replacement of the power supply system which dates to the 1930's. The study projected a need over the next 10 years. Phase II of the Plan will be completed this summer and will include a discussion of methods and options for allocating these investment costs among intercity, commuter and freight operators. The exact amount of the Federal Share will become clearer with publication of the second phase of transportation Plan.

Amtrak has allocated approximately \$300 million of the \$570 million NECIP appropriations for Fiscal Years 1995, 1996, and 1997 to Northend improvements.

[The information from Amtrak follows:]

Amtrak is in general agreement with the Chairman's statement regarding Northeast Corridor Southend needs over the next five years. Amtrak has identified nearly \$2 billion in recapitalization investments which include infrastructure and signal upgrades, tunnel modernization, and other actions to achieve the highest rate of return on high speed rail. Amtrak has worked closely with FRA in establishing the various phases of modernization and investment on the corridor and agree, in general, in the funding needs.

Specifically, Amtrak was appropriated \$570 million in Federal NECIP appropriations for Fiscal Years 1995, 1996, and 1997 including an \$80 million high speed rail grant in FY 1997. Of these appropriations, \$268 million have been directed to improvements on the northend of the Northeast Corridor.

NECIP funding in detail:

Fiscal Year: 1995, \$200; 1996, \$115; 1997, \$175, and \$80 (HS Rail Grant).

rail prospects

Mr. Wolf. On innovative financing, the department is requesting \$100,000,000 for a new transportation infrastructure program which will provide seed money for new transportation infrastructure projects, including direct loans and other innovative funding mechanisms. Will any of this funding be available for rail projects? If the answer is yes, what types?

Ms. Molitoris. The recommendation of the administration is that publicly owned facilities would be eligible for this kind of funding.

Mr. Wolf. Give us the type.

Ms. Molitoris. For example, a connection to a port. Any project, take for example, the Florida project is a very obvious one.

The money that the state is contributing means that they own the right-of-way, and so that would be a publicly owned right-of-way and would be eligible.

Mr. Wolf. Is Amtrak eligible? They are really publicly owned.

Ms. Molitoris. The opportunity to be part of a project really comes through the state DOTs and regional planning organizations. I would suppose if Amtrak partnered with any of

these organizations and they wanted to have Amtrak as part of their proposal, I don't see why they couldn't be.

bankruptcy charges

Mr. Wolf. Mr. Downs, before we end, I wanted you to explain for the record the bankruptcy charges.

Last year, we were talking in terms of \$3,000,000,000, and now you are talking in terms of \$5,000,000,000.

Mr. Downs. We have \$1,500,000,000 more debt this year than we had last year after we completed the acquisition of all of the new GE P-40 and P-42 locomotives. We finalized the delivery of all of the Superliner IIs, the bi-level passenger cars. We executed the agreement for \$750,000,000 worth of financing for high-speed rail.

There are lots of ways of assuming the cost of all of those, but in effect, it is the cost of increased debt.

Mr. Wolf. So it would have jumped from \$3,000,000,000 to \$5,000,000,000 in one year?

Mr. Downs. Signing a \$700,000,000 agreement for the delivery of 18 high-speed train sets and all of its maintenance and operational facilities, add \$750,000,000 to the exposure.

I believe the Superliner IIs were \$400,000,000 and I believe the GE locomotives were about \$500,000,000 or \$400,000,000.

Mr. Wolf. So you are about \$500,000,000 short? Can you explain it for the record?

Mr. Downs. Yes, I will break it down for you.

[The information follows:]

Attached to the FY 1995 Legislative Proposal and Grant Request in an analysis done by Amtrak and scored by CBO that estimated the one-time costs to ``shut-down'' at approximately \$5.0 billion. Approximately \$2.4 billion of these costs were associated with payments for labor protection which are mandated by law. Approximately \$1.2 billion were long-term debt liquidation which has doubled to approximately \$2.2 billion since this paper was done.

If we backed out the labor costs--estimated at \$2.4 billion--then the shut-down costs are approximately \$3.0 billion. Since this assessment was completed and evaluated by CBO, our long-term liabilities have increased by approximately \$1.0 billion. In other words, total liquidation costs, including labor protection are now closer to \$6.3 billion (\$3.9 billion without labor protection costs).

With regard to Amtrak's outstanding long-term debt, the following estimates show our year-end outstanding debt balance based on our current commitments:

OUTSTANDING DEBT HISTORY AND FORECAST [Dollars in millions]

FY95	FY96	FY97	FY98	FY99	FY2000
836.972.....	986.995	1209.725	1438.835	1391.479	2184.714

oregon/vancouver corridor

Mr. Wolf. Would a multi-state high-speed rail corridor such as that being proposed between Oregon and Vancouver, British Columbia, be a strong candidate?

[The information follows:]

It is very likely that a multi-state high-speed rail corridor project would be eligible for consideration under the proposed Transportation Infrastructure Credit Enhancement Program, which would cover only projects of national significance whose eligible costs are \$100,000,000 or 50 percent of a state's apportionment, whichever is lower. Whether such a project would be a strong candidate could not be determined until a specific proposal was developed and compared to other competing projects.

nextea proposals

Mr. Wolf. It is my understanding that the NEXTEA proposal includes a provision that would allow state and local officials to use National Highway System and Surface Transportation Program funds to improve publicly owned freight rail infrastructure. The federal government is trying to reduce corporate welfare programs. Why should the federal government subsidize rail companies, which made \$1,000,000,000 in profit last year?

[The information follows:]

The use of funds under NEXTEA for publicly owned freight rail infrastructure would provide no subsidy to private railroads. Rather, by allowing public agencies to use Surface Transportation Program (STP) and, to a limited extent, National Highway System (NHS) funds for projects on publicly-owned infrastructure, local planners would be given another tool with which to address transportation issues, allowing a more multi-modal approach. Under the Congestion Mitigation Air Quality program of ISTEA, states and localities can sponsor projects on both publicly owned and privately owned infrastructure, if the project helps a non-attainment area meet its air quality goals under the Clean Air Act. A number of rail-related projects, some involving cost-sharing partnerships with freight railroads and some solely on publicly-owned infrastructure, were funded under CMAQ. In selecting and developing these projects, state and local governments determined that they reduced highway congestion, enhanced highway safety and improved air quality in a more cost-effective manner than competing conventional highway projects. Our proposal builds on the success of the CMAQ program by expanding some of its flexibility--the ability to develop projects on public infrastructure--to localities that are not non-attainment areas. By broadening the NHS and STP programs to include publicly-owned rail infrastructure, we propose to allow states and localities additional options to address problems such as congestion regardless of the ``attainment'' status of the area in which the project is located.

Mr. Wolf. In NEXTEA, the department proposes supplemental capital funding for Amtrak, above that appropriate for Amtrak's capital programs, including the Northeast Corridor. This funding is to begin in 1999. Ms. Molitoris, could you please explain this proposal?

[The information follows:]

The supplemental capital funding proposed in NEXTEA is designed to provide a strong incentive for Amtrak to take the necessary actions to reduce spending, increase revenues and operate in the most efficient and effective manner. This includes developing the partnerships with the stakeholders in Amtrak's future necessary to achieve our goal of eliminating Amtrak's dependence on Federal operating subsidies. Under this proposal, if Amtrak meets or is projected to meet the operating subsidy glide path target for a specific year, then the Secretary will propose in the next budget submittal to Congress that Amtrak receive the supplemental capital funding available that year.

Mr. Wolf. It appears that if supplemental capital funding is approved, it will replace any declines in federal operating assistance. For example, in fiscal year 1999, NEXTEA proposes \$292,000,000 in operating assistance, a \$50,000,000 decline from the administration's request in 1998. However, the department also suggests providing \$130,000,000 in supplemental capital funding. In totality, Amtrak could receive \$80,000,000 more in 1999 than in 1998. Are we replacing operating assistance with supplemental capital funding?

[The information follows:]

Amtrak will require enhanced levels of capital investment to eliminate its dependence on Federal operating subsidies. Our NEXTEA proposal provides that increased capital funding, although it is only available if Amtrak meets the downward glide path in operating subsidy requirements. If Amtrak does not meet those targets, then it does not receive the supplemental funding.

Mr. Wolf. How does providing additional capital funding allow Amtrak to become independent of federal operating subsidies in the year 2002?

[The information follows:]

Capital investment is an essential part of the strategy of eliminating Amtrak's dependence on Federal operating subsidies while preserving its national system. Capital is required for Amtrak to replace or modernize aging equipment and facilities, enhance its services, and pay down some high cost debt taken on when Congress did not appropriate capital funding. All of these factors have positive impacts on Amtrak's bottom line.

Mr. Wolf. I appreciate both of you coming. I will tell you that this is going to be a very difficult year. You can see the concern.

My feeling is that I think a base closing concept where we can put all these concerns together would be helpful. We will

have to see how we work it out, but I appreciate both of you coming before the committee.

Mr. Downs. Thank you, Mr. Chairman.

[Pages 287 - 904--The official Committee record contains additional material here.]

I N D E X

Federal Railroad Administration

	Page
1-800 Computer Answering Service (Grade Crossings).....	293, 481
Accidents:	
Avoidance.....	438
Grade Crossing.....	297
Hazardous Material.....	377
Rail.....	235
Rates, Class I.....	363
Rates, Class II/III.....	364
Train.....	389, 399
Action Plan on Grade Crossing.....	244
Alaska Railroad.....	480
Amtrak:	
1998 Budget Request.....	650
1998 Grant Proposal.....	657
Accidents and Injuries.....	647
Administrative and Staffing Costs.....	638
Available Cash.....	620
Bankruptcy.....	150, 284
Capital Budget.....	136
Capital Funds.....	443
Capital Needs.....	548
Competition.....	161
Competition--Commuter Rail.....	176
Competition--Low Cost Air Fares.....	161
Contracts with Freight Railroads.....	574
Debt History and Forecast.....	284
Debt Status.....	115
Employment.....	625
Equipment.....	576
Expenditures.....	633
Expenses.....	635
Federal Employers Liability Act.....	621
Financial History.....	626
FRA Budget Requests.....	26, 441
Funding Needs.....	147
Glidepath to Self Reliance (Chart).....	120
Grade Crossings.....	652
Inflation Estimates.....	639
Maintenance.....	588

Non-Core Business Activities.....	660
Northeast Corridor.....	586
NTSB Recommendations.....	646
Opening Remarks.....	111
Operating Subsidy.....	621
Owned Infrastructure.....	158
Priorities.....	155
Railroad Retirement.....	655
Revenues.....	616
Rhode Island Rail.....	651
Ridership.....	202, 610
Self Sufficiency Plan.....	137
Staffing.....	572
State Contributions.....	658
User Tax.....	202
Arrestor Net.....	302
Automated Track Inspection Program.....	534, 537
Bankruptcy, Amtrak.....	150, 284
BN/UP Train Control Projects.....	450
Borrowing Authority.....	235
Bridges, Railroad.....	514
Budget Deficit.....	147, 148
Capital Needs.....	147
Charts:	
Amtrak's Glidepath to Self Reliance.....	120
Comparisons for Passenger Railways in Industrialized Countries.....	165
Federal Capital Appropriations: FY 1976-1997.....	114
Original Operating Support Glidepath.....	112
Outstanding Debt/Capital Lease Obligations.....	116
Principal and Interest Expense: FY 1987-2002.....	118
Safety Improvement.....	3
Class I Accident Rates.....	363
Class II/III Accident Rates.....	364
Commercial Driver Requirements.....	243
Commercial Feasibility Definition.....	269
Commercial Feasibility Study.....	272, 530
Commercial Vehicle Grade Crossing Accidents.....	242
Commuter Rail:	
Competition from.....	176
Safety Project.....	527
Competition from:	
Commuter Rail.....	176
Low Cost Air Fares.....	161
Consulting Services.....	439
Cost Savings.....	159
CSX/Norfolk Southern/Conrail Merger.....	661
Debt/Capital Lease Obligations: FY 1997-2002 (Chart).....	116
Debt History and Forecast, Amtrak.....	284
Decreased Federal Support Impact.....	202
Dedicated Capital Funds.....	156, 174
Dedicated Revenue.....	162, 163
Diesel Electric and Turbine/Flywheel Locomotive.....	467
Downs, Thomas--Prepared Statement.....	123
Dynamic Brakes.....	504
Electrification--Amtrak.....	568
Electrification Project, Washington to Boston.....	231

Emergency Hatches.....	507
Emergency Order 20.....	505
Emergency Training.....	512
Employee Casualty Rates.....	378
Enforcement Cases.....	420
Environmental Impact Statement, Rhode Island Rail.....	350
Environmental Mitigation--Amtrak.....	567
Excepted Track.....	375
Fatalities:	
Grade Crossing.....	297
Rail.....	395
Federal Capital Appropriations: FY 1976-1997 (Chart).....	114
Federal Railroad Administration:	
Amtrak Budget Requests.....	441
Authorized FTEs/On-Board Strength.....	349
Budget Submission:	
Amtrak.....	26
Next Generation High Speed Rail.....	39
Overview.....	8
Research and Development.....	22
Safety.....	9
Inspector Procedures.....	226
Office of the Administrator Information.....	337
Opening Remarks.....	2
Political Appointees.....	347
Prepared Statement.....	7
Project Coordinators.....	171
Railroad Merger Process.....	216
Report to Congress--FRA's Safety Programs and Initiative.....	46
``Sick Building'' Problem.....	404
Unobligated Funds.....	359
Federal/State Inspection Resources.....	365
Flammability Standards.....	511
Flexible Highway Infrastructure Safety.....	316
France High-Speed Rail.....	196
GAO Testimony on Amtrak Financial Condition.....	140, 149
Gates, Locked.....	303
Grade Crossings.....	322, 542
I-800 Computer Answering Service.....	293, 481
Accidents and Fatalities.....	297, 306
Action Plan.....	244
Commercial Vehicle Accidents.....	242
Efforts.....	254
Enhancements.....	304
FRA Opening Remarks on.....	4
Funding.....	312, 314, 317
Illinois.....	455
Innovations.....	305
Reductions.....	263
Safety Enhancements.....	300
Violations.....	296
Hazardous Material Accidents.....	377
High-Speed Rail.....	565
Corridors.....	280
Focus.....	465
France.....	196
Ground Transportation: The International Context (Essay).....	179

Interoperability.....	456
Investments.....	165
Locomotive Investments.....	468
Next Generation Projects.....	462
Northeast Corridor.....	283
Providence.....	229
State Investments.....	328
Highway Trust Fund.....	200
Hours of Service.....	243, 292
Human Factors.....	502
IG Report on Inspectors.....	219
Illinois Train Control Project.....	453
Information Technology.....	489
Injuries to Employees on Duty.....	379
Inspectors:	
By Position.....	368
State Participation.....	369
Workload.....	367
Intermodal Freight.....	518
Intruder Detection.....	325
Labor Costs.....	232
Labor Mediation Progress.....	233
Legislative Proposals.....	138
Local Rail Freight Assistance.....	403
Locked Gates.....	303
Locomotive Risk Assessment.....	513
Locomotive Technology.....	466
Locomotives, Non-Electric.....	478
Low Cost Air Fares, Competition from.....	161
MAGLEV.....	499
Mail and Express Expansion.....	153, 157
Mail and Express Revenues.....	160, 207
Merger.....	166
Michigan Train Control Project.....	452
Molitoris, Jolene--Biographical Summary.....	44
Molitoris, Jolene--Prepared Statement.....	7
Need to Subsidize Amtrak.....	201
Next Generation High-Speed Rail Projects.....	462
(See also High-Speed Rail)	
NEXTEA Proposals.....	285
Non-Electric Locomotives.....	478
Northeast Corridor:	
Capital Expense Transfer.....	216
Capital Needs.....	137
High-Speed Rail Project.....	283
Ridership Projections.....	203
Omnibus Appropriations Act, Effect on Amtrak Plan Actions.....	206
Operating Fund Disbursement Schedule.....	234
Operating Subsidy, Amtrak Opening Remarks.....	111
Operation Lifesaver:	
FY 1998 Funding.....	323
State Participation.....	320
Operation Respond.....	491
Oregon/Vancouver Corridor.....	284
Outstanding Debt History and Forecast, Amtrak.....	284
Outstanding Debt/Capital Lease Obligations: FY 1997-FY 2002.....	116
Penn Station Redevelopment Project.....	208

Placement of Rail Cars.....	522
Positive Train Control:	
Illinois Project.....	453
Manassas/Harrisburg Corridor.....	458
Michigan Project.....	452
Projects.....	447, 448
Regulations.....	460
Urban Areas/Flexible Blocks.....	459
Positive Train Separation.....	254, 290, 444, 539
Principal and Interest Expense: FY 1987-2002 (Chart).....	118
Private Crossings.....	248
Process Used for Eliminating Routes.....	159
Profitable Routes.....	207
Rail:	
Accidents.....	235
Car Placement.....	522
Crossing Improvements.....	245
Fatalities.....	395
Prospects.....	283
Safety Institute.....	411
Safety Issues.....	218
Safety Staffing.....	492
Track Upgrade.....	269
Railroad Bridges.....	514
Railroad Safety, Budget Request.....	524
Railroad's Use of Contractors.....	517
Realignment.....	154
Record Review Actions.....	226
Regulatory Priorities.....	414
Research and Development:	
Advisory Support.....	431
Cost Sharing.....	422
Environmental Impact Analysis.....	528
FRA Budget Submission.....	22
FRA Opening Remarks.....	6
FY 1998 Projects.....	425
Program Oversight.....	432
Stress and Fatigue.....	435
Rhode Island Rail Project:	
Bond Referendum.....	355
Environmental Impact Statement.....	350
Federal Funding.....	357
Impact of Delay.....	352
Record of Decision.....	354
Third Party Contributions.....	358
Use of CMAQ Funds.....	356
Routes:	
Amtrak.....	568
Closures.....	169
Profitable.....	207
Profits.....	167
Restructuring and Cost, Status.....	203
Viability.....	217
RSAC Funding.....	493
RTL Trainsets.....	469
Rulemakings Finalized.....	418
Running Red Lights (Stop Signals).....	287

Safety:	
Action Plans.....	370
Board Recommendations.....	236
Enhancements, Grade Crossing.....	300
FRA Budget Submission.....	9
Improvement (Chart).....	3
Inspections.....	226
Institute, Rail.....	411
Issues, Rail.....	218
Programs and Initiatives, FRA Opening Remarks.....	4
Staffing, Rail.....	492
Trends.....	373
Violations.....	223
Serious Injuries to Employees on Duty.....	379
Sick Building Problem.....	404
State Buy backs, Status of.....	204
Stop Signals.....	287
Stress and Fatigue.....	401, 435
Surface Shelling.....	508
T-6 Inspection Railcar.....	436
TASC FY 1997-1998 Estimates.....	406
Telecommuting.....	319
Track Safety Standards.....	536
Track Speed Limits.....	272
Track Upgrade.....	269
Train Accidents.....	389, 399
Train Control:	
Illinois Project.....	453
Manassas/Harrisburg Corridor.....	458
Michigan Project.....	452
Other Projects.....	447
Urban Areas/Flexible Blocks.....	459
Transportation Technology Center.....	408
TRB Study on Passenger Rail Safety.....	434
User Fees.....	264
Video Conferencing and Imaging Systems.....	484
Violations, Grade Crossing.....	296
Washington to Boston Electrification Project.....	231
Wichita Merger.....	216

National Railroad Passenger Corporation (Amtrak)

Amtrak Competition.....	161
Commuter Rail Competition.....	176
Amtrak's Need for Subsidy.....	201
Consulting Services.....	640
Contracts with Freight Railroads.....	574
Downs, Thomas:	
Formal Statement.....	123
Verbal Statement.....	111
Electrification Update.....	568
Environmental Mitigation.....	567
Federal Employers Liability Act.....	621
Finances:	
Amtrak Bankruptcy.....	150
Available Cash.....	620
Budget Deficit Forecast.....	147

Budget Request 1998.....	130, 650
Capital Budget.....	136
Capital Needs.....	147, 568
Debt Status.....	116
Dedicated Capital Funding.....	156, 174, 200
Expenditures.....	633
Federal Capital Appropriations.....	114
Financial History.....	626
Grant Proposal 1998.....	657
Inflation.....	639
Northeast Corridor Capital Needs.....	137, 561
Operating Subsidy.....	121, 621
Self-Sufficiency.....	119, 128, 137
GAO Testimony on Amtrak.....	149
Half-Cent Gas Tax.....	553
High Speed Rail Project.....	229, 565, 587
Highway Trust Fund.....	200
Labor:	
Administrative and Staffing Costs.....	638
Employment.....	625
Mediation Process.....	233
Staffing.....	572
Union Agreements.....	642
Maintenance.....	588
Facility Upgrade.....	597
Maintenance of Way.....	592
Station Operating Costs.....	603
Station Renovation.....	601
Workload Data.....	589
Mail and Express.....	153, 157, 207
Non-Core Business Activities.....	660
Northeast Corridor Improvement Project.....	586
NTSB Recommendations.....	236, 646
Penn Station Redevelopment Project.....	208
Railroad Mergers.....	166, 216, 661
Railroad Retirement.....	655
Revenues.....	616
Rhode Island Rail.....	651
Ridership.....	202, 610
Routes.....	568
Profits.....	167, 207, 217
Elimination.....	159, 169, 204
Safety:	
Grade Crossings.....	242, 263, 652
Accidents and Injuries.....	645
Service.....	562
State Contributions.....	658
User Fees.....	264

Tables and Charts

Amtrak Appropriations History.....	631
Amtrak Employment (state by state).....	625
Amtrak FY 1998 Capital Needs.....	550
Equipment Delivery Schedule.....	580
Federal Capital Appropriations.....	114
Federal Funding.....	553

Federal Funding History.....	629
FELA Payments and Expenses.....	621
FELA Payouts.....	624
Fleet Average Age.....	584
Operating Statistics.....	582
Operating Support Glidepath.....	112
Outstanding Debt.....	116
Passenger Miles Per Operating Subsidy.....	634
Planned Maintenance of Way.....	593
Principal Interest.....	118
Revenue in Constant Dollars.....	627
Ridership Trend.....	612
Route by Route Performance.....	570
Self-Reliance Glidepath.....	120
Station Operating Costs.....	604
Station Renovations.....	601
Strategic Capital Plan.....	556
Union Agreements.....	642

Research and Special Programs Administration (RSPA)

Back Logged Projects.....	808
Budget and Administrative Issues.....	790
Civil Penalties Assessed and Collected.....	682
Damage Prevention Quality Team.....	715
Emergency Preparedness Grants.....	764
Emergency Transportation:	
Office of Emergency Transportation.....	815
Crisis Management Center, Use of.....	816
Hazardous Materials Safety:	
Hazardous Materials Budget Increase.....	787
Hazardous Materials Incidents by Mode.....	774
Hazardous Materials Incidents.....	766
Hazardous Materials Inspections.....	784
Hazardous Materials On-Board Staff.....	768
Hazardous Materials Training Resources.....	785
Hazardous Materials Travel Expenses.....	787
Hazardous Materials Workload Indicators.....	788
New Mandates.....	767
NTSB Recommendations.....	788
Open NTSB Recommendations.....	770
Serious Hazardous Materials Incidents.....	786
Significant Hazardous Materials Regulations.....	776
Inspections/Inspectors:	
Hazardous Materials Inspections.....	784
Risk-Based Pipeline Inspection.....	696
RSPA Offshore Pipeline Inspections.....	688
RSPA Onshore Pipeline Inspections.....	686
RSPA Pipeline Inspections.....	674
RSPA Pipeline Inspectors.....	672
RSPA Pipeline Safety Inspections.....	677
New Mandates.....	767
Non-Destructive Evaluation Research.....	697
NTSB Recommendations.....	788
Obligational Authority From Outside DOT.....	804
Office of Emergency Transportation.....	815
Oil Pollution Act Programs.....	735

One-Call Legislation.....	715
One-Call Systems.....	712
Open NTSB Recommendations.....	770
OPS Reorganization.....	720
OPS Risk Management Program Employees.....	744
OPS Work Load Analysis.....	735
OPS Work Load Measures.....	678
Pipeline Safety:	
Civil Penalties Assessed and Collected.....	682
Damage Prevention Quality Team.....	715
National Pipeline Mapping System.....	699
Non-Destructive Evaluation Research.....	697
NTSB Recommendations.....	788
Pipeline Incident Summary.....	676
Pipeline Incidents Due to Flooding.....	742
Pipeline Risk Management Initiative.....	690, 745
Pipeline Safety Fund--Reserves.....	702
Pipeline Safety Regulatory Program.....	726
Pipeline Safety User Fees.....	741
Oil Pollution Act Programs.....	735
One-Call Legislation.....	715
One-Call Systems.....	712
OPS Reorganization.....	720
OPS Risk Management Program Employees.....	744
OPS Work Load Analysis.....	735
OPS Work Load Measures.....	678
Responsiveness to NTSB Recommendations.....	720
Risk-Based Pipeline Inspection.....	696
RSPA Offshore Pipeline Inspections.....	688
RSPA Onshore Pipeline Inspections.....	686
RSPA Pipeline Inspections.....	674
RSPA Pipeline Inspectors.....	672
RSPA Pipeline Safety Inspections.....	677
RSPA Pipeline Incident Investigations.....	675
RSPA Oversight of Hazardous Liquid Pipelines.....	722
RSPA Staffing.....	791
State Compliance Program Support.....	716
Political Appointments.....	791
Research and Technology.....	746
Responsiveness to NTSB Recommendations.....	720
RSPA Staffing.....	791
State Compliance Program Support.....	716
Statement of Research and Special Programs Administration.....	666
Use of Crisis Management Center.....	816
Volpe Center:	
Back Logged Projects.....	808
Investing Volpe Center Funds.....	814
New Volpe Center Obligational Authority--DOT.....	803
Obligation Authority From Outside DOT.....	804
RSPA Contracts with the Volpe Center.....	810
Ten Largest Volpe Projects by Mode.....	798
Volpe Center FTE.....	813
Volpe Center Unobligated Balances.....	808
Volpe Center, The.....	798

Acquisition Proposals.....	868
Abandonments.....	869
Board Members and Terms.....	865
Budget Request:	
Comparison of Budget Requests.....	844
FY 1988.....	827
Caseload.....	884, 899
Case Processing Timeframe.....	885
Comparison of Board's and President's Budget Requests.....	844
Comparison of Board's and ICC's Workload.....	900
Conrail Merger.....	892
Earnings:	
Class I Railroads.....	897
Exempted Commodities.....	871
Funding:	
Feasibility of Funding by User Fees.....	843
Options Paper.....	848
Other Services.....	861
Reimbursable Services.....	861
User Fee Funding Alternatives.....	846
User Fee Increases.....	859
User Fee Shortfall.....	860
User Fees.....	903
Goals and Accomplishments.....	820, 834
ICC Termination Act:	
Rulemakings Imposed by.....	878
Independent Regulatory Body Within DOT.....	899
Managerial and Supervisory Positions.....	863
Mergers:	
Conrail.....	892
Final Procedural Schedule.....	892
Other Services.....	861
Organization.....	830
Proceedings:	
Motor, Rail, Pipeline.....	884
Publication of Proposed Regulations.....	902
Railroad:	
Acquisition Proposals.....	868
Abandonments.....	869
Rate Complaints.....	880
Revenue Adequate.....	893
Earnings, Class I.....	895
Railroad-Shipper Transportation Advisory Council.....	886
Annual Report.....	888
Policy Recommendations.....	887
Rates:	
Complaints.....	880
Regulation.....	882
Regulation:	
Exempted Commodities.....	871
Rate Regulation.....	882
Independent Body Within DOT.....	899
Publication.....	902
Reimbursable Services.....	861
Relocation of Board.....	867
Revenue Adequate Railroads.....	893
Rulemakings:	

Estimated Completion Date.....	872
Imposed by the ICC Termination Act.....	878
Priorities.....	877
Staffing:	
By Function.....	866
Managerial and Supervisory Positions.....	863
Statement of Chairman Morgan.....	821
Budget Request.....	819
Goals and Accomplishments.....	820
Summary.....	823
Workload.....	821
User Fees:	
Feasibility of Funding.....	843
Funding.....	903
Funding Alternatives.....	846
Increases.....	859
Options Paper.....	848
Shortfall.....	860
Workload:	
Comparison to ICC.....	900
FY 1997 and FY 1998.....	821
Pending Case.....	899
Summary.....	826